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Unless the contrary is stated, the standard unit of weight used throughout is the metric ton. The definition of "billion" used throughout is one thousand million. Minor discrepancies in totals and percentages are due to rounding.

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UNITED NATIONS

CURRENT ECONOMIC DEVELOPMENTS IN EUROPE

The western European economy is still booming in the closing months of 1960. And earlier fears that the pace of expansion of output and employment might reach a fever-pitch of over-demand and inflation have receded as the rate of growth of demand has moderated. Although the rate of increase of industrial output has slowed down in recent months, it continues at a very high level. After two years of vigorous economic growth, inflationary price increases have not materialized, and balances of payments remain, for the most part, strong. In the eastern European countries and the Soviet Union industrial expansion continues at rates everywhere at least as high as planned — or as recorded last year — and frequently higher. In most of the more industrialized countries of the area strains on raw material supplies seem to be increasing, despite the support given to the expansion by the rapid growth of imports. Investment is rising rapidly, but nevertheless overall supply and demand in consumers' markets seem to be fairly well balanced, as in western Europe, and the adjustment of the pattern of

consumer goods output to that of final demand seems gradually to be improving.

Overseas the economic situation is less satisfactory. In the United States demand and output have been persistently sluggish during 1960, and the immediate prospects for revival are highly uncertain. The primary-producing countries have lost ground, since their exports — and hence their capacity to import from industrial areas — have weakened. The conjoint effect of these developments has been the slackening of overseas demand for western Europe's exports. But the outlook for the next few months in the international sphere, even if uncertain, is not bleak. From the following discussion of economic developments in the United States and western Europe it seems clear that international trade may be helped to regain its lost momentum by the adoption of a moderate degree of reflation in the United States, accompanied by a co-ordinated international adjustment of interest rates and the pursuit of policies appropriate to the maintenance of a high rate of internal expansion in western Europe.

1. ECONOMIC HESITANCE IN THE UNITED STATES

After making sluggish headway during the first half of the year, the growth of the American economy appears to have come to a virtual standstill in the third quarter of 1960. The poor showing of several of the main economic indicators — of industrial output, employment, sales of consumers' durable goods and the flow of orders — had aggravated the already unsettled mood of business expectations on the eve of the presidential elections. In consequence, both in the United States and abroad concern has been voiced that the American economy may now be entering, or already have entered, a fresh phase of recession. This possibility cannot lightly be dismissed; yet it does

not seem a strong probability, judging by the indicators considered in the following paragraphs.

One important source of concern is the inertia of the gross national product in the third quarter, after its previous steady rise to the record level of the second quarter — equivalent to an annual rate of \$505 billion. This out-turn was yielded by mutually counter-balancing changes in the structure of demand. The strength of export demand has been sustained throughout the year, thanks largely to the western European boom; and as personal incomes rose, spending by consumers continued to increase. But buying for stock, company profits and the planned volume of

investment all declined. Government outlays and the volume of dwelling construction have been comparatively stable.¹

The index of industrial production reached its peak at 111 (1957 = 100) in January and then hovered in the range of 109-111 until August, when it fell to 108 and then to 107 in September. The steel and automobile industries have been primarily responsible for this decline, both of which expanded their output in excess of consumption in the early months of the year. Most other industries have either maintained or increased their output. In consequence, by September output of durable goods was 6 per cent less than in January, whereas output of non-durable goods was 2 per cent above the January level. The disappointing results obtained by the steel and automobile industries are interrelated and attributable to two main causes: the lingering repercussions of the steel strike on the rhythm of stock-building; and the adaptation of the automobile industry to the production and marketing of a wider range of 'compact' models.

Following the steel strike, total stock accumulation rose to an annual rate of \$11.4 billion in the first quarter of 1960; it then dropped by almost \$6 billion in the second quarter to a low point in the third quarter, when steel users utilized about 3 million tons more than they received. Demand for steel has subsequently rallied modestly, but the industry is still operating at only some 50 per cent of capacity, even though activity in the metal-using industries has been well maintained. Nevertheless, the prospects for the industry during the remainder of 1960 are not unpromising: by the end of the third quarter steel stocks were down to as low a level as at the end of 1959, so the adjustment would appear to be complete and an inflow of new orders imminent.

In the first nine months of 1960 motor-car sales were about 8 per cent higher than in the corresponding period of 1959, while sales of imported cars fell in roughly similar proportion. The success of the compact automobile models is now beyond question, yet their very success has created problems for the national economy. The retooling interval necessary for the production of the 1961 models depressed purchases of steel — and the steel required for them is in any case much less than for the conventional models. (Of course, if the compact cars capture — as seems likely — a larger share of total sales at the expense of imports, the steel intake of the industry need not fall.) While the 1961 models have been well received, they have been introduced at a time when there were large

stocks of 1960 models — about 575,000 of which were unsold in late September.

The reduction in company profits in the second and third quarters has been taken by many observers as an indication that business outlays for new plant and equipment are likely to decline in the months ahead. Since private fixed investment (excluding dwellings) has been a consistently expansionary element of demand in 1960, such a decline could suffice to turn the present quasi-stagnation of the economy into an incipient recession. While it is probably true that lower company profits induce more caution in planning capital outlays, they also tend to heighten interest in investment calculated to raise productive efficiency. The most recent survey of business investment intentions indicates that although capital outlays in the last quarter of 1960 will be less than anticipated in spring, most major industrial groups will invest as much in the second half of the year as in the first half. This means an increase, for total industry, of 12 per cent over 1959, and of 26 per cent for manufacturers of durable goods. Reflecting the high level of business fixed investment, order books for electrical and industrial machinery are now much longer than a year ago, although the volume of sales and the flow of new orders have been stable since the spring, following eighteen months of steady increase.

Dwellings construction has been moving at a much slacker pace in 1960 than in the previous year, and the easier mortgage terms available since summer have not yet led to any revival of activity in this sector; but although the volume of dwellings under construction has not risen, an increase in starts is likely in 1961.

In the last analysis it is the development of private consumption and government spending in the remaining months of 1960 and the early part of 1961 which will determine whether the American economy takes off or recedes from its present plateau. During the third quarter total personal income rose slightly — but the gain was due to higher transfer payments, since wage and salary income decreased as a result of a reduction in the number of hours worked and higher unemployment. The volume of retail sales in August and September was reduced, reflecting weaker sales of durable goods (e.g. automobiles and household equipment), but aggregate personal consumption was held steady by higher disbursements on services. The markedly slower growth of instalment debt may be taken as symptomatic of the hesitance of consumer buying intentions. Government outlays on goods and services — particularly defence expenditures and higher spending on salaries and road building — accelerated during the third quarter and are expected to advance further for the remainder of the year, thus imparting a moderate impetus to the economy.

¹ In September, however, housing starts fell sharply to a seasonally adjusted annual rate of 1,077,000 units. This was nearly 17 per cent less than in August (when there had been an increase) and 29 per cent less than in September 1959.

None of the major economic indicators suggests that the recent sluggishness of demand and output is deeply entrenched. Indeed, it seems quite possible that the issue of the presidential elections, by dispelling the uncertainty of expectations, will hasten the turning of the tide. The problem for the authorities in the United States in preventing any further decline and in im-

parting a fresh stimulus to the economy is complicated in the present unusual circumstances by the need to consider the impact of expansionary measures on short-term capital movements. However, the recent marked improvement in the balance of trade should in the next few months reduce the importance of this constraint on the choice of reflationaly measures.

2. STEADY EXPANSION IN WESTERN EUROPE

Industrial Output and Employment

By the early summer of 1960 the conspicuously strong expansion of western Europe's industrial output during the winter months was yielding in most countries of the area to a more moderate pace of advance. This was not unexpected. The rates of growth of industrial production in the latter part of 1959 and the first quarter of 1960 were unusually high — as high, indeed, as at any time during the preceding decade. The exhaustion of idle resources — of labour and capacity in particular — was almost certain to induce some slowing down. In the event, supply limitations, notably the tight labour market in western Europe, have gently checked the rate of growth. A more surprising development has been the moderation of final demand: some relaxation of consumer demand, especially for durable goods, was foreseen in consequence of the precautionary measures of restraint introduced by several governments. But it was not anticipated that this induced slowing-down of demand would supervene on a market where demand forces (e.g. for residential construction) were weakening of their own accord. Nevertheless, as the following data

show, industrial output in western Europe is still maintaining a high rate of increase.

Percentage increases in total industrial production

(A) January-August 1960 over January-August 1959
(B) Second quarter 1960 over first quarter 1960 (annual rates)

	(A)	(B)	(A)	(B)
Austria	9	9	Italy	17 ^a 10
Belgium	9	4	Netherlands	15 20
Denmark	8	-2	Norway	7 15
Finland	13	2	Sweden	8 -1
France	10	6	United Kingdom	9 6
Western Germany	11 ^a	7	Yugoslavia	16 ^a 20
			United States	4 ^a -2

Source: Table 1.
^a January-September.

Apart from the Netherlands, Norway and Yugoslavia, in all three of which industrial output continued to rise briskly between the first and second quarters, in most western European countries industrial production has recently stabilized at a level some 10 per cent, on average, above that of the corresponding period of 1959 (see Table 1).

TABLE 1
Index numbers of industrial production in selected European countries

1953=100, seasonally adjusted

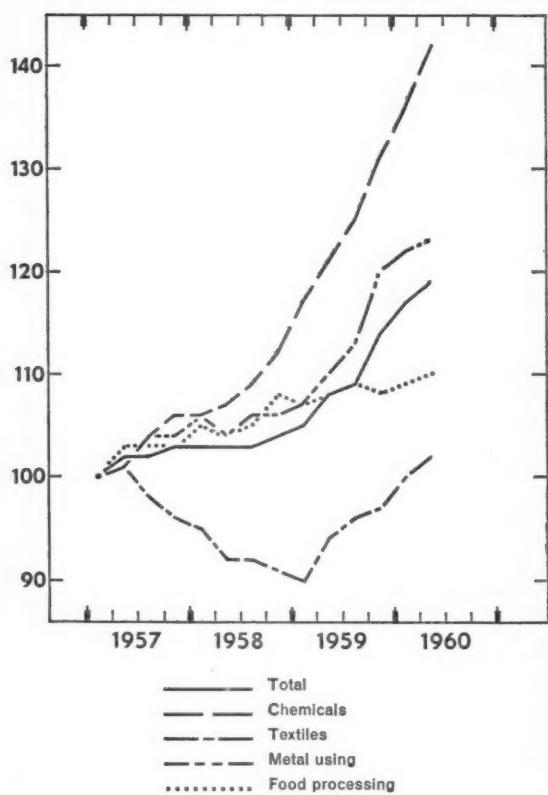
Country	1957	1958	1959	1958				1959				1960		
				I	II	III	IV	I	II	III	IV	I	II	III
Austria	146	150	156	153	151	151	150	152	153	155	160	165	166	174 ^a
Belgium	123	115	119	119	113	114	114	114	118	120	126	125	127	129 ^a
Denmark	121	125	135	124	123	125	128	127	133	138	142	142	142	142 ^a
Finland	134	129	139	133	126	130	127	131	141	143	143	157	158	156 ^a
France	145	150	156	153	153	151	151	151	157	160	169	168	170	175 ^a
Western Germany	147	152	162	151	150	151	154	156	159	163	171	176	179	179
Italy	138	143	158	141	139	142	148	152	153	157	170	177	181	181
Netherlands	127	127	139	124	127	128	130	134	138	140	144	152	160	155 ^a
Norway	129	129	134	127	129	128	131	130	135	136	137	139	145	145
Sweden	119	118	123	120	118	116	120	121	121	122	128	129	129	132 ^a
United Kingdom	116	114	122	116	114	114	114	116	119	123	127	129	131	132 ^a
Yugoslavia	170	189	214	182	184	186	198	201	209	214	226	235	247	242
United States	110	102	116	99	98	104	108	112	119	115	115	121	120	119

Sources: OEEC Statistical Bulletins — General Statistics, Part I, Main Economic Indicators; and national statistics.

^a July-August.

CHART 1
Industrial production by sectors for OEEC countries

*Index numbers of volume, first quarter 1957 = 100
Seasonally adjusted*



Sources : OEEC, *Statistical Bulletins—General Statistics*; and national statistics.

No significant change has occurred in the sectoral distribution of the increase in industrial production: the iron and steel, engineering, and chemicals industries have expanded more strongly than textiles and most other consumer-goods industries (see Chart 1). Neither the coal-mining nor shipbuilding industries have risen to higher levels of activity during 1960, but there has been no further reduction in their output and their prospects appear to have improved.

Until August it would have been correct to say that the engineering industries had fared uniformly better than consumer-goods industries. Since then the marked contraction of export demand for motor vehicles requires the revision of this generalization in so far as it concerns the United Kingdom, France, Italy and western Germany. Exports of passenger cars from all four countries to the United States fell

from the first to the second quarter, although total production continued to increase (see Table 2). Since these exports constitute between one-tenth and one-sixth of total output, the current rate of production has been cut by major manufacturers in France, the United Kingdom and, to a lesser extent, western Germany. Unless sales to the United States recover soon, other manufacturers will probably follow suit. Prior to this recent weakening, the unfaltering expansion of automobile exports consistently supported the output of the steel industries and those branches of the engineering industry related to automobile production.

Throughout the first nine months of 1960 there has been a steady increase in numbers employed in western Europe, although the rate of increase has generally slowed down since the spring as the labour market tightened.² In three countries — the Netherlands, Norway and the United Kingdom — the number unemployed was still higher, during the third quarter, than in the previous year of extremely low unemployment in 1956/57. During the second and third quarters there was a tendency for the working week to lengthen. The emergence, in October, of redundancy or short-time working in the automobile industries in France and the United Kingdom could, however, lead to the propagation of unemployment in dependent and allied industries. The growing weight of the automobile industry in the total industrial production of several western European countries poses policy problems which have been familiar to the authorities in the United States for several years. Just as the buoyancy of the export trade of the industry has for some years imparted a strong expansionary impulse to total western European exports, so the present weakening of export demand could exert a contractionary effect on total output unless counteracted by measures designed to boost domestic demand, e.g. the relaxation of credit facilities, tax reductions, or the revision of petrol prices.

Wages and Prices

Wage rates and hourly earnings in industry rose more briskly in several western European countries during the second and third quarters of 1960. The largest increases occurred in precisely those countries — Austria, western Germany, the Netherlands and Sweden — where the shortage of labour was most acute. In France, where the legal minimum wage was raised by 2.31 per cent on 1 October, the labour market has not been so tight, but wages have been

² See the *Economic Bulletin for Europe*, Vol. 12, No. 1, pp. 34-37, for a discussion of the western European labour market earlier in 1959.

TABLE 2

Production and exports of motor vehicles in the principal producing countries of western Europe

Thousands of units, at quarterly rates

Country	Passenger cars												Commercial vehicles									
	1958 1959		1959				1960				1958 1959		1959				1960					
			I	II	III	IV	I	II	III	IV			I	II	III	IV	I	II	III			
France:																						
Production	231	271	266	300	218	301	312	330	227	81 b	50	49	48	50	38	59	60	62	48			
Exports a	80	129	105	146	116	157	169	137	81 b	9	12	10	11	11	15	19	19	11 b				
of which :																						
to United States . .	22	43	36	46	44	46	49	22	..	—	—	—	—	—	—	—	—	—	1.4	..		
Western Germany:																						
Production	327	376	348	379	351	425	462	465	403	47	52	48	53	51	56	57	56	53				
Exports a	162	196	172	200	181	231	224	222	182 b	21	26	21	28	24	30	28	29	24 b				
of which :																						
to United States . .	36	58	51	57	57	68	63	44	44 b	3.1	4.1	3.6	5.6	3.4	3.8	4.8	4.3	3.2 b				
Italy:																						
Production	92	118	100	126	107	138	151	163	..	8	8	7	7	7	10	10	12	..				
Exports a	40	53	47	58	48	60	62	63	30 b	1.1	0.9	0.3	0.8	1.0	1.3	2.0	2.5	..				
of which :																						
to United States . .	7.5	12.2	10.5	14.6	10.2	12.6	11.4	3.4	..	—	—	—	—	—	—	—	—	—	..			
United Kingdom:																						
Production	263	297	258	315	254	363	393	405	312	78	93	79	97	89	105	115	121	103				
Exports a	113	135	113	156	123	147	173	169	109	14	16	14	17	14	18	17	18	16				
of which :																						
to United States . .	38	52	49	60	53	46	55	48	28	0.9	1.5	1.4	2.0	1.5	1.1	0.8	0.7	0.2				

Sources : National statistics.

a Excluding "Chassis with engine".

b Figures based on two months.

rising as part of the recovery of the loss in real earnings sustained in 1958. In the last twelve months average hourly wages in France have risen by some 2 per cent per quarter. In the Netherlands the Government has openly challenged the wage increase agreed by both sides of the engineering industry, fearful lest this grant should touch off a fresh round of similar wage claims and concessions prior to the expiry of existing agreements. (It is noteworthy that the use of productivity increases as the criterion for wage awards — a new system introduced earlier this year — has not won general favour. The authorities, in particular, have found that it tends to exaggerate differentials between sectors and branches, and are at present seeking some more manageable criterion.) In those countries where industrial earnings have risen most, the increase by the end of the second quarter was of the order of 6 to 8 per cent over the level of a year earlier (see attached series of indicators of short-term economic changes), but continuing productivity gains have insulated the price level from upward pressure from higher wage costs. The comparative moderation of wage awards in other countries is in large degree attributable to the persisting stability of both wholesale and retail prices.

Price movements in certain western European countries

Percentage increases

(A) First eight months in 1960 over first eight months in 1959

(B) Second quarter of 1960 over first quarter of 1960

	Wholesale prices		Retail prices	
	(A)	(B)	(A)	(B)
Austria	-0.3	-0.6	2.5	1.4
Belgium	0.9	-1.2	0.6	-0.2
Denmark	—	-0.3	..	..
Finland	4.3	0.3	3.8	0.6
France	3.1	0.2	4.3	0.1
Western Germany .	0.3	-0.3	2.9	-0.2
Italy	1.5	-0.5	2.6	-0.1
Netherlands	-1.1 a	-1.2	3.4	0.6
Norway	0.3	-0.6	0.4	0.6
Sweden	3.3	0.7	4.4	-0.2
Switzerland	1.3	-0.7	1.2	0.7
United Kingdom .	1.1	0.9	0.6	0.6

Source : National statistics.

a Seven months.

As the above data show, the stability of prices in western Europe, which has been perhaps the outstanding feature of the current boom, has been maintained undisturbed during the summer months. This comparative stability (prices have generally risen more slowly than earnings, with the result that real wages

are higher) has been the outcome, in most countries, of the offsetting effect of gently falling prices of foodstuffs on higher prices of services and increased rents. As a result, in no major western European country has the cost-of-living index risen by more than 2 points so far in 1960 — and in most the increase has been less. In western Germany demand pressure for some manufactures led to quite appreciable price increases for certain commodities, but not on a scale to push up the index of wholesale prices of industrial products. In France steel prices have risen by 5 per cent, higher prices for steel products, cereals, bread and dairy products have been authorized, and the tariffs for public transport in the Paris region have been increased by 50 per cent, but as elsewhere in western Europe no general round of price adjustments has ensued. Coal prices in the United Kingdom were increased in September — in percentage terms the fourth highest increase since nationalization; at the same time, however, price competition among petrol distributors has become much keener, and the prices of certain models of motor cars have been cut, as also in France and western Germany.

The continuing weakness of import prices of raw materials and foodstuffs, the probability that agricultural prices will not increase much, following a fairly satisfactory harvest, and the steady gains in productivity which have been recorded in 1960 are all factors suggesting that the stability of prices will persist during the remainder of the year and early in 1961 — particularly since total demand now appears to be growing more slowly.

The Changing Pattern of Demand

In the second and third quarters the elasticity of supply has been less adversely affected by shortages of labour and capacity than might have been expected earlier in the year. At the same time the growth of total demand has weakened more than anticipated. In the earlier stages of the boom the resurgence of export demand, consumers' purchases of durable goods and demand for residential construction were the principal forces of expansion. Now this constellation is gradually changing. Export demand, particularly from the United States, has eased following the slow-down in the rate of growth of American output; and demand for both durable goods and dwellings construction in western Europe has relaxed, largely as a result of dampening policies. In contrast, private fixed investment in manufacturing remains at a high and rising level, total private consumption continues to grow, and government outlays — on both current and capital account — have been well maintained.

The remarkably rapid expansion of demand and output in western Europe during the upswing caused a steep increase in private fixed investment designed

both to extend capacity and to enhance productive efficiency by means of rationalization. Investment in manufacturing was at a high rate in the first quarter, and in some countries — notably France, Italy, the United Kingdom and western Germany — this rate accelerated during the second and third quarters. The high volume of incoming orders — with the increases concentrated on the investment-goods industries, and surveys of business investment intentions, indicate that fixed-investment demand will remain strong into 1961. In the United Kingdom the automobile industry is proceeding with ambitious investment schemes for the large-scale expansion of capacity, despite the current weakness of the market, since its programme of expansion is based on an optimistic appraisal of the development of demand for automobiles in the long run. The vigorous stock-building of raw materials in western Europe appears to have eased during the second and third quarters; but with the slower rate of growth of consumer demand, stocks of durable goods have been growing more rapidly. In general, though, production and sales of most commodities are now moving in step and no pronounced stock movements are in prospect.

In most western European countries many more dwellings were under construction during the second quarter of 1960 than a year earlier (see Table 3). The building boom was particularly strong in Switzerland — 25 per cent more dwellings under construction — and has been a source of concern to the authorities; in the United Kingdom the corresponding increase was about 10 per cent. Elsewhere in western Europe, however, the sharp increase in residential construction seems to be tapering off. Authorizations and starts fell in the second quarter from their high levels of the first quarter in all countries except Switzerland — and in some (e.g. western Germany, the Netherlands and Sweden) there was an absolute decline in authorizations from the levels of the second quarter of 1959. Tighter credit conditions and mortgage facilities probably account for the major part of this decline, but in countries such as France and Italy, where no restrictions have been imposed, the diminished level of activity is attributable to an autonomous decline in demand. In sum, residential construction now appears to be stabilizing at a high level and probably will neither add to nor subtract from the growth of total demand in western Europe in the winter months.

Total private consumption in western Europe has steadily increased during 1960, notwithstanding the moderation of demand for durable goods during the second and third quarters, and continues to be a strongly expansionary element of final demand. Higher employment, increased real disposable income (due to higher wages, longer hours and larger transfer payments) and an apparent tendency for a decline in the

TABLE 3
Dwelling construction in selected European countries
Thousands of dwellings

Country	1959				1960		
	I	II	III	IV	I	II	III
Belgium	Completions	8.3	12.4	12.2	13.5	..	..
Denmark	Starts	4.4	8.4	8.4	6.6	4.5	6.5
	Under construction ^a	20.8	23.8	26.6	27.1	26.2	27.0
	Completions	4.4	5.4	5.6	6.2	5.3	5.7
Finland	Authorizations	5.4	8.9	7.0	9.8	7.7	11.4
	Completions	4.8	4.7	7.1	11.5	5.8	5.7
France	Authorizations	79.2	101.4	76.5	86.0	80.0	92.3
	Starts	76.0	78.1	77.6	86.7	72.6	87.4
	Completions	79.2	71.7	77.1	92.4	69.7	76.3
Western Germany . .	Authorizations	114.4	161.1	162.5	149.8	123.5	156.2
	Completions	50.1	80.4	124.2	300.3	55.9	80.1
Ireland	Authorizations	1.0	1.2	1.1	1.3	..	..
	Starts	1.0	1.5	1.3	1.5	..	..
	Under construction ^a	4.4	4.2	4.0	3.9	..	..
	Completions	1.2	1.6	1.4	1.7	1.3	1.3
Italy	Authorizations	63.2	69.7	62.6	76.1	56.3	57.4
	Completions	44.2	45.9	43.4	50.0	39.1	47.1
Netherlands	Authorizations	16.9	23.8	20.0	23.7	19.3	17.7
	Starts	18.1	26.1	21.5	21.4	18.9	21.1
	Under construction ^a	86.6	92.4	92.8	87.6	88.6	89.7
	Completions	15.7	20.3	21.0	26.6	16.9	21.1
Norway	Authorizations	4.4	8.6	6.9	7.6	4.4	7.5
	Starts	3.5	7.8	8.0	7.8	3.9	7.8
	Under construction ^a	22.3	23.9	26.3	25.1	23.5	24.5
	Completions	5.8	6.1	5.7	8.9	5.2	6.8
Portugal	Completions	5.8	6.6	7.6	6.0	6.2	..
Spain	Authorizations	30.0	27.7	23.6	19.2	13.3	13.1
Sweden	Starts	10.1	20.6	22.0	18.8	8.9	17.8
	Under construction ^a	70.4	73.4	79.2	76.5	70.7	71.7
	Completions	13.9	17.6	16.2	21.5	14.7	17.4
Switzerland ^c	Authorizations	5.0	6.7	5.9	7.1	6.2	7.2
	Under construction ^a . . . . .	..	17.5	..	20.5	..	21.9
	Completions	2.3	3.9	3.3	4.8	3.8	5.0
United Kingdom . . .	Starts	71.3	93.8	83.9	76.0	67.8	95.6
	Under construction ^a	239.2	262.5	276.5	273.2	273.1	289.7
	Completions	61.9	70.5	69.9	79.3	67.9	79.1

Sources: National statistics; ECE, *Quarterly Bulletin of Housing and Building Statistics*.

^a End of period.

^b Two months at quarterly rates.

^c 42 towns.

savings ratio have all swollen the volume of final consumers' expenditure. In consequence, the index of retail sales has been higher during the summer months than a year ago, when the upswing was gathering momentum. Besides increasing expenditure on commodities (particularly non-durables), consumers in western Europe have also been spending more on services. The restrictions on consumers' credit have

effectively reduced purchases of household appliances in the United Kingdom, but the underlying strength of consumer demand is manifest in the higher sales of non-durable goods and of those appliances which are exempt from hire-purchase restrictions.

Government outlays have continued to rise slowly in most countries. Higher salaries for civil servants have slightly augmented current expenditures in

several countries, and purchases of goods and services have increased more briskly. Public investment has been maintained on a high level, with increases in France, the United Kingdom, Italy and Belgium, and is expected to rise slowly for at least the remaining months of this year.

While the relative strength of the respective components of aggregate demand has clearly changed during 1960, the outcome of this change will probably be no more than a moderate slowing-down in the rate of growth of final demand; and to the extent that time is needed for the enlargement of capacities and the industrial rationalization necessary to relieve labour shortages, the implied moderation of the continuing boom is welcome.

Agriculture

The total western European grain crop will probably be no smaller than last year's. The coarse grain harvest has been good, and in many countries exceeds that of 1959, but the wheat crop is poor and generally of low quality with high moisture content, which makes it less suitable for milling purposes. As a result, part of the wheat crop will have to be utilized for feed. So far as trade in cereals is concerned, it therefore seems probable that demand for imports of high quality wheat into western Europe will be sustained, whereas the market for feed grains will be considerably reduced.

According to recent estimates the western European wheat crop may be about 7 per cent smaller than last year. The decrease in production is especially marked in Italy, France and Spain. The Italian wheat crop is reported to amount to only about 7.2 million tons, compared to 8.6 million tons in 1959; after last year's exports, stocks will be insufficient to cover the deficit, and imports of soft as well as hard wheat will be necessary. An official French estimate puts the 1960 wheat harvest at 10.7 million tons. The decrease in French wheat production is due not only to poor yields and losses in consequence of adverse weather conditions during the harvesting period, but also to the reduced area sown this year because of the low

prices paid to farmers for surplus wheat (i.e. quantities exceeding the officially subsidized quotas). According to the Office National Interprofessionel des Céréales, French farmers will not deliver more than 7.3 million tons of wheat to the agency, thus bringing down exportable quantities to about 800,000-900,000 tons — compared with 1.75 million tons in 1959. French commercial circles fear that much of the export surplus can be used only as feed wheat and that it may become difficult to find market outlets since other western European countries will bring quantities of similar quality to the market. It is estimated that approximately 15 per cent of this year's French wheat harvest will be unsuitable for milling purposes. A poor quality wheat harvest has been reported in Belgium, the Netherlands and the Scandinavian countries. In western Germany, although the quantity of wheat harvested is estimated to be 7 per cent higher than last year, the quality is considered poor. The Spanish wheat crop has been estimated to be about 25 per cent smaller than last year. The Turkish wheat crop has been satisfactory — 8 per cent higher than in 1959 — and is of good quality.

Western European import requirements of feed grains are expected to decrease in the coming year. Although statistical data on the harvest results are scarcer than for wheat, the coarse grain crops are generally reported to be satisfactory, and in some cases excellent. In addition, greater quantities than usual of poor quality wheat will be available for feed. In France the barley crop is expected to be 13 per cent and the maize crop 40 per cent larger than last year.

The potato crop is reported to be well above that of last year in all western European countries for which data are available and larger quantities will be available for feed. On the whole, the European feed situation looks very favourable, not only in respect of grains and potatoes but also taking into account the very high yields of beet leaves and abundant grazing. The sugar-beet harvest has been excellent in most western European countries, although the sugar content is expected to be barely average; and in general 1960 has been a favourable fruit production year in western Europe.

3. THE EXTERNAL TRADE AND PAYMENTS OF WESTERN EUROPE AND THE UNITED STATES

The previous *Bulletin* was devoted exclusively to the analysis of trade developments and problems.³ Since most developments affecting western Europe's trade flows in the first half of 1960 were dealt with there, and few additional data have become available in the meantime, little need be added at this stage. The present section is therefore limited to a brief review of the recent course of western Europe's overseas trade and

the balance of payments of individual western European countries and the United States.

Western Europe's Overseas Trade

During the economic upswing in western Europe in 1959 the volume of imports from overseas grew almost in step with industrial production; but between the third quarter of 1959 and the first quarter of 1960 their rate of increase greatly accelerated in consequence of

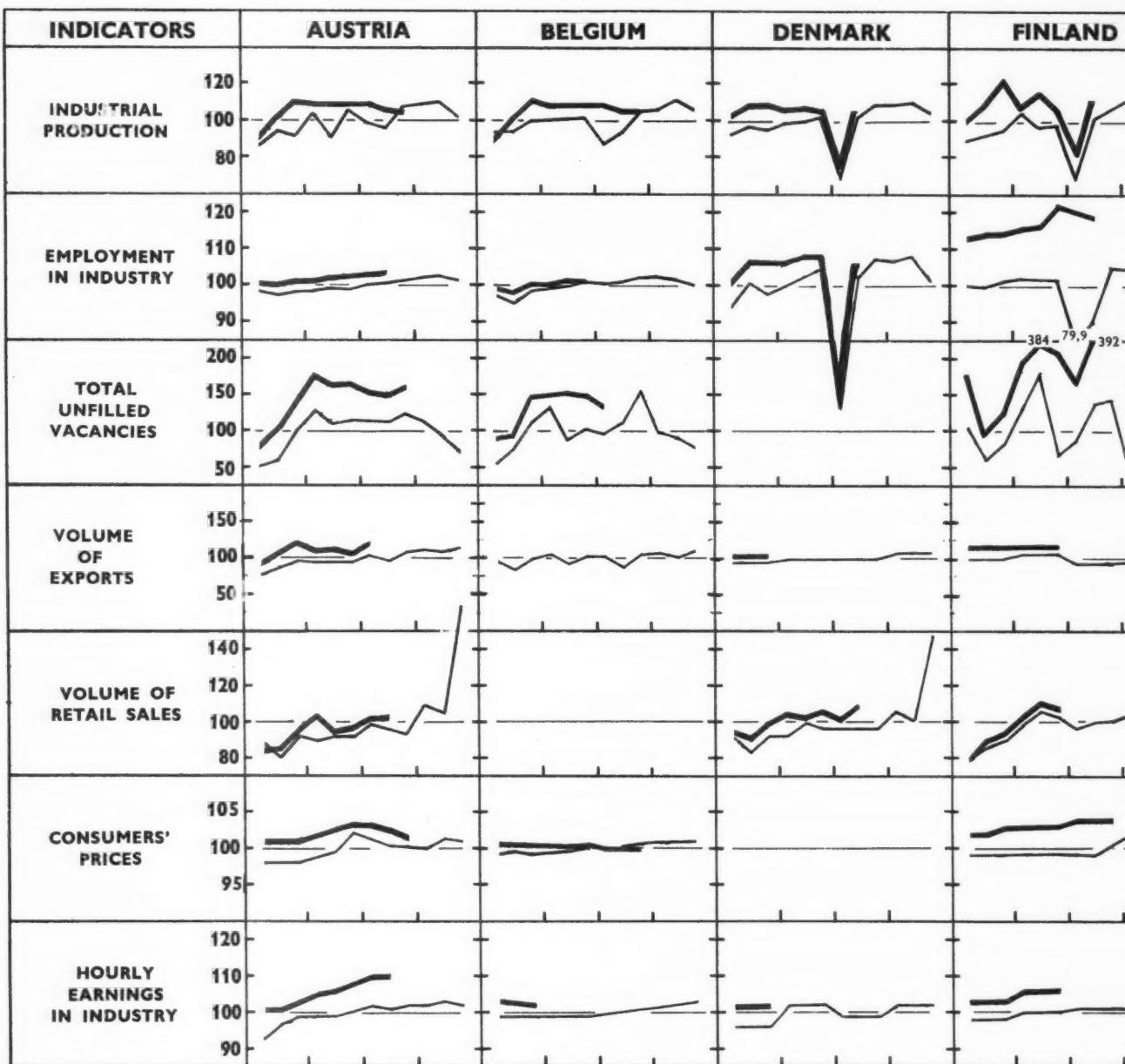
* See *Economic Bulletin for Europe*, Vol. 12, No. 2.



WESTERN EUROPE AND THE UNITED STATES :

Index numbers, monthly average

Monthly or quarterly figures



Employment in industry : Denmark : man-hours worked in industry

Hourly earnings in industry : Denmark : value of retail sales

Volume of retail sales : Denmark : value of retail sales

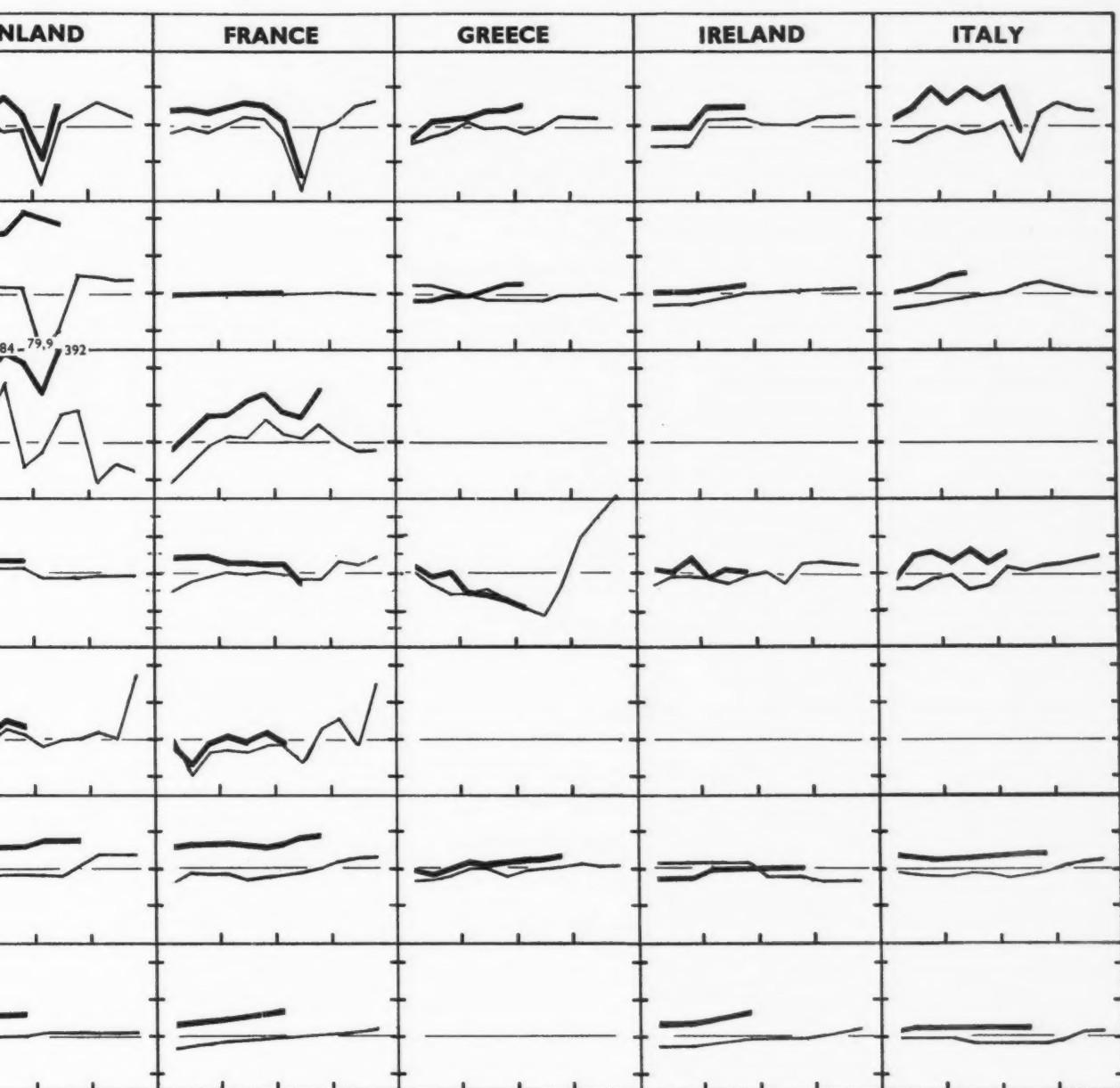
STATES : SHORT TERM ECONOMIC INDICATORS

Monthly average 1959 = 100

or quarterly figures

1959

1960

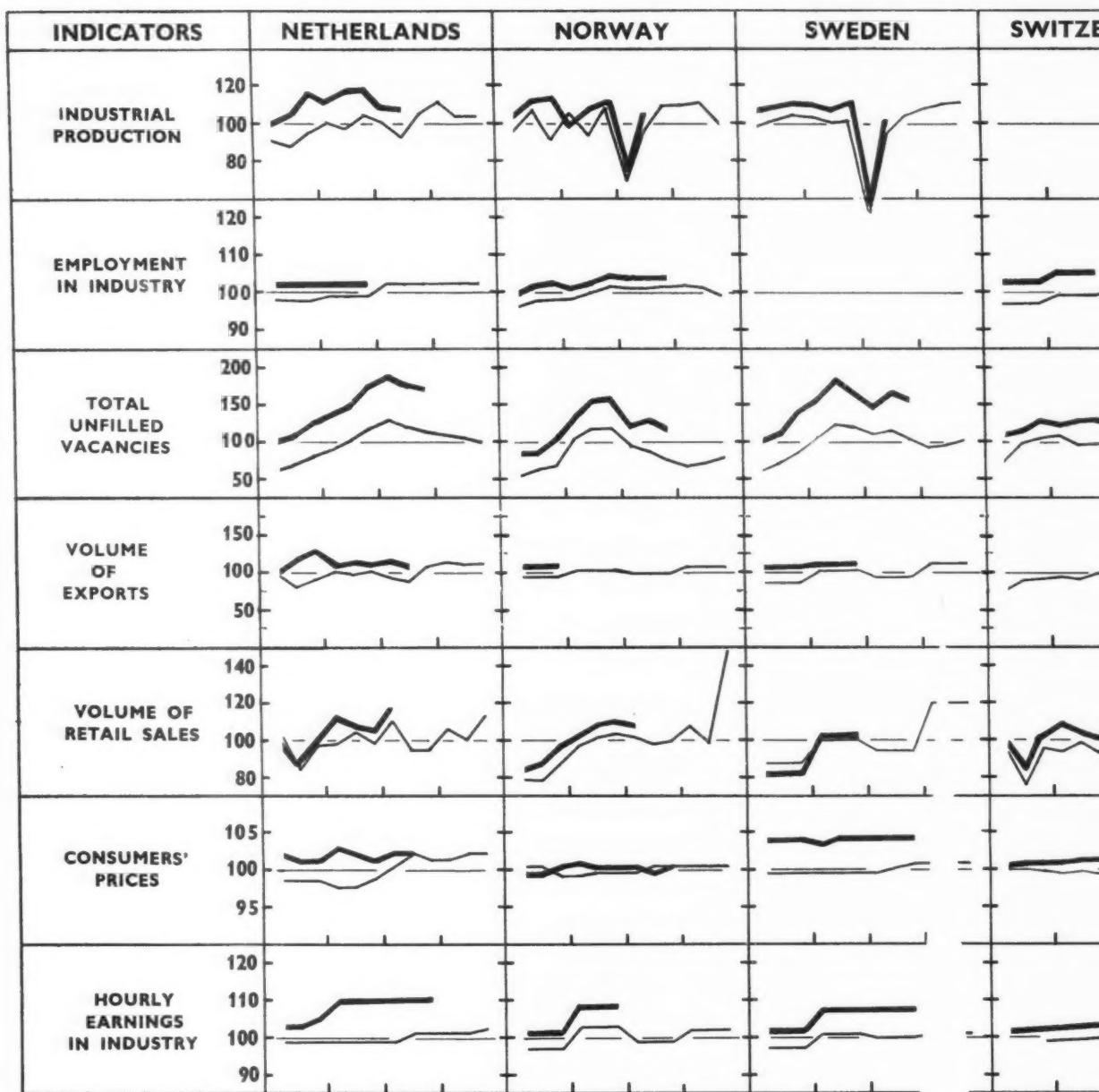


arnings in industry : France and Italy : hourly wage rates

WESTERN EUROPE AND THE UNITED STATES

Index numbers, monthly

Monthly or quarterly



Employment in industry : United Kingdom : commencing May 1959 revised series based on 1955 standard.

¹Standard Ind.

Total unfilled vacancies : W. Germany : commencing January 1960 including Saar

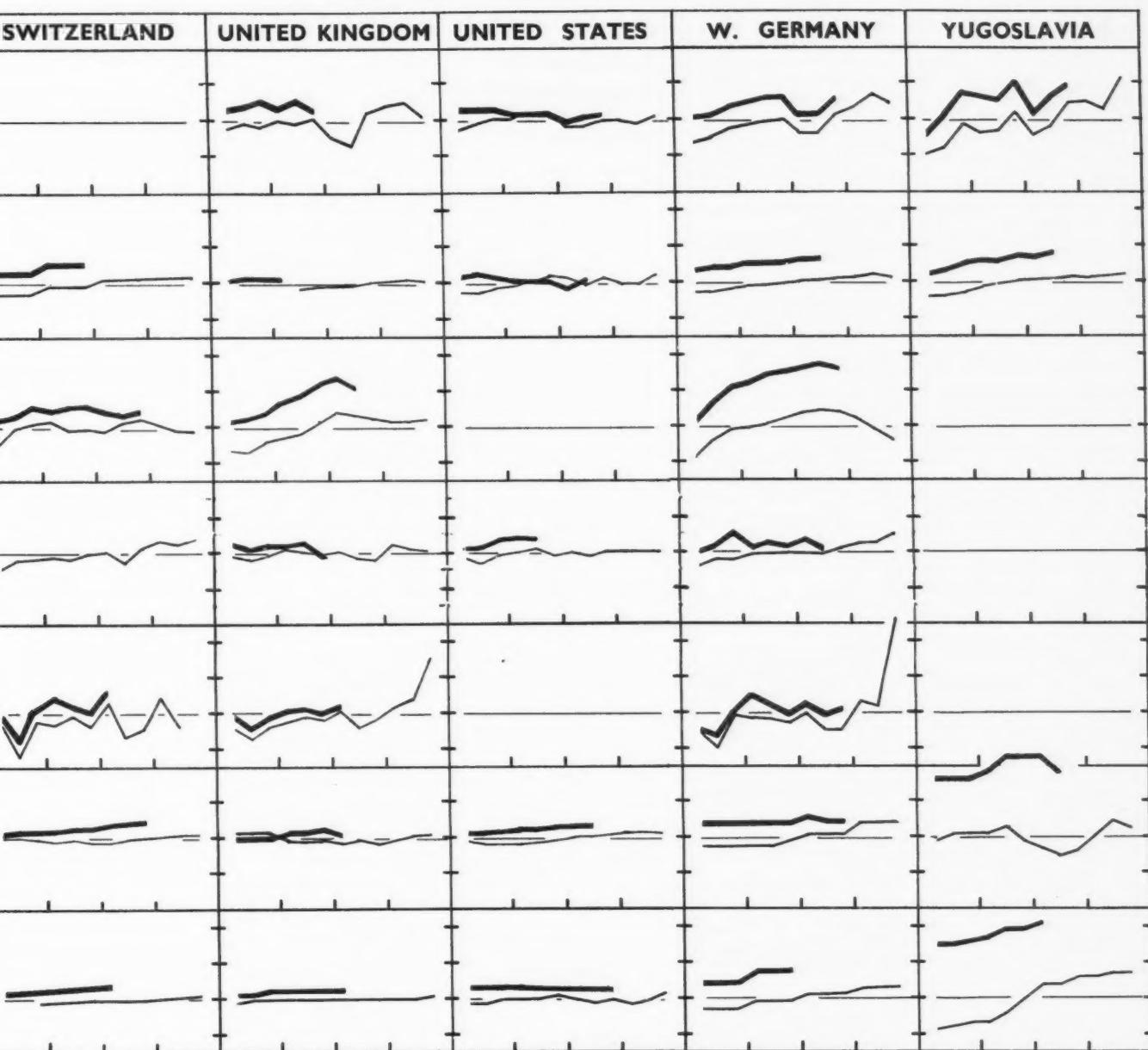
UNITED STATES : SHORT TERM ECONOMIC INDICATORS

Index numbers, monthly average 1959 = 100

Monthly or quarterly figures

1959

1960



"Standard Industrial Classification"

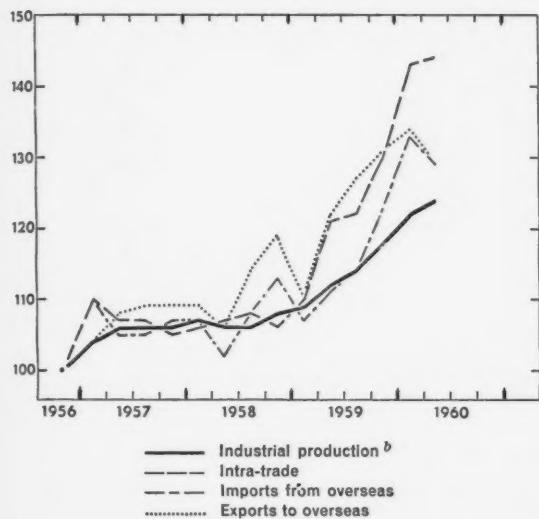
Volume of retail sales : Netherlands : volume of consumption

Hourly earnings in industry : Netherlands, Switzerland and United Kingdom : hourly wage rates



CHART 2
Industrial production and foreign trade
of western Europe^a

Index numbers of volume 1956 = 100
Adjusted for seasonal fluctuations



Sources : OEEC, Statistical Bulletins—General Statistics ; Foreign Trade, Series 1; Foreign Trade, Series A; and national statistics.

^a Figures relate to OEEC member countries.

^b Excluding Spain.

vigorous stock-building and the spilling over into imports of demand pressure on domestic resources (see Charts 2 and 3). Although industrial production continued to expand in 1960, the volume of overseas imports decreased in the second quarter since the rate of growth of total demand was slower than anticipated. This recent decline has been confined to imports from the primary-producing countries: imports from North America, in contrast, have continued their upward course which began only in the third quarter of 1959. Whereas the volume of imports from North America was 40 per cent higher in the first half of 1960 than in the same period of 1959, the corresponding increases of imports from primary-producing countries and of intra-western European trade were 14 and 24 per cent respectively.

Exports to North America, which in 1959 had risen by 37 per cent in volume above their 1958 level, started to level off in the third quarter of 1959; by the second quarter of 1960 they were 9 per cent less than in the corresponding period of 1959. Exports to primary-producing countries, which had been barely higher in 1959 than in 1958, surged sharply but briefly in the last quarter of 1959 and the first quarter of 1960, but declined in the second quarter although still remaining at peak levels. The simultaneous fall in exports to both

North America and the primary-producing countries suggests that overseas export demand in the next few months may not provide so strong an impetus to western Europe's economic expansion as hitherto.

Exports to primary-producing countries are liable to fluctuate in response to changes in the import purchasing power of these countries. The combined foreign exchange reserves of the primary producers had declined sharply in 1957 and 1958 because their export receipts fell from the middle of 1958 onwards, whereas their imports continued to rise throughout the year. In 1959 their foreign exchange reserves increased by only some \$420 million: whereas imports declined, exports started to expand only late in the year and at the same time the long-term capital inflow from industrial countries and international institutions was reduced.⁴

Between the first halves of 1959 and 1960 the imports of the primary producers from both North America and western Europe increased, exports to the latter area also rose substantially and those to the United States declined (see Table 4). The combined effect of these trade movements was a deterioration in the primary-producing countries' trade balance of some \$570 million, of which 80 per cent was due to the change in their trade flows with the United States. This, as well as the continuing decrease in the long-term capital receipts of a number of them, is reflected in the figures below, which show that the gold and foreign exchange reserves of the primary producers fell by \$140 million in the first half of 1960.⁵

Gold and foreign exchange holdings of selected non-dollar overseas countries^a

Millions of dollars

1958		1959		1960
June	December	June	December	June
7,108	6,957	7,192	7,382	7,241

Source : IMF, International Financial Statistics.

^a The figures cover major primary-producing countries for which data are available.

Movements on individual commodity markets have been so diverse as to make generalization about the course of commodity prices very difficult; but it seems certain that a weakening tendency has set in since late spring. This, together with the loss of reserves by primary-producing countries in the first half of 1960, the uncertain business outlook in the United States, and the slowing down in the rate of expansion in western Europe does not augur well for continued

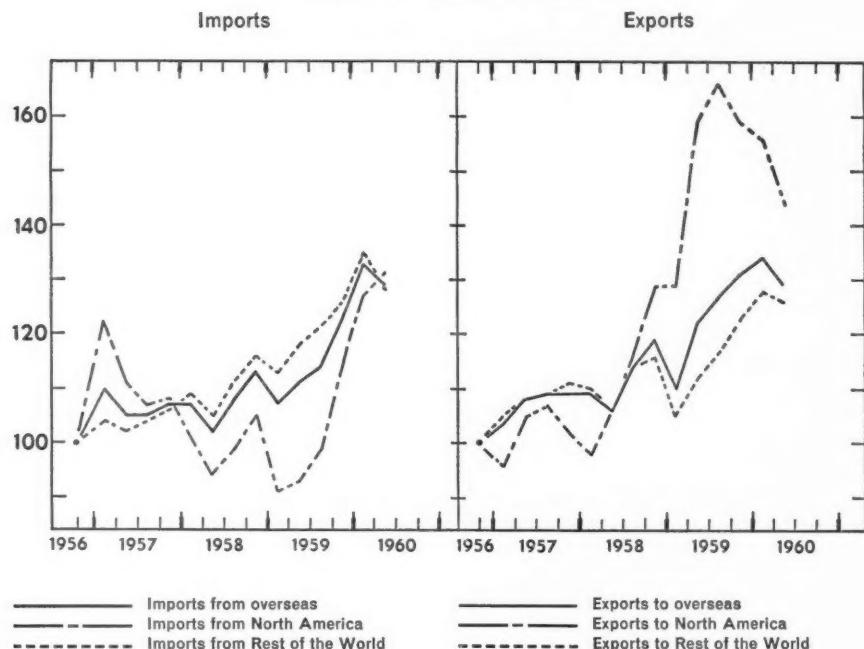
⁴ Economic Bulletin for Europe, Vol. 12, No. 2, pp. 15-16.

⁵ Among the countries exporting primarily agricultural commodities, India, the Union of South Africa, Australia and Egypt lost about \$410 million of their international reserves and the decline seems to be continuing; the petroleum-producing countries for which figures are available lost some \$40 million; and the mineral-producing countries gained about \$50 million.

CHART 3

Western Europe's overseas trade

*Index numbers of volume 1956 = 100
Adjusted for seasonal fluctuations*



Sources : OEEC, *Statistical Bulletins—General Statistics ; Foreign Trade, Series 1; Foreign Trade, Series A*; and national statistics.

import expansion in the short run — nor, as a corollary, for the prospects of western Europe's exports in the markets of the primary producers unless more external finance is made available.

*Western European Balances of Payments*⁶

After two years of rapid economic expansion western European balances of payments are holding up remarkably well — even in countries where the balance of payments has been particularly vulnerable in the past. Official foreign exchange reserves were higher — and in some instances considerably higher — at the end of September 1960 than nine months earlier in all countries except Belgium-Luxembourg, Denmark, Italy and Portugal (see Table 5). This improvement is taking place in spite of increases in the trade deficit or reductions in the trade surplus in the first nine months of 1960. The deterioration of trade balances was due to the difference between the rate of expansion of exports, which slowed down markedly, and that of imports, which was either constant or slowed down

⁶ For balance-of-payments developments in the southern European countries, see section 4.

less. Thanks to the influx into some countries of short-term capital caused by interest-rate differentials or speculative factors this adverse trade movement did not weaken the reserve position. Such an influx reinforced the already excessively strong balance-of-payments position of western Germany and concealed the underlying weakness of the British balance of payments; and in Switzerland it added to the embarrassment created by the already excessive liquidity of the banking system.

While the gold and foreign exchange position remains highly favourable, there have been important changes in the positions of individual countries between 1959 and 1960. In the first six months of 1960 the official gold and foreign exchange reserves of OEEC countries combined increased by \$1.6 billion as against an increase of \$1.4 billion during the whole of 1959.⁷ In 1959 the increases in French and Italian reserves amounted to over 70 per cent and 60 per cent respectively of the

⁷ See OEEC *Statistical Bulletins — Main Economic Indicators*, September 1960. These figures differ from those published in *International Financial Statistics* because in the latter certain adjustments have been made on account of the liquidation of EPU in December 1958.

TABLE 4

Changes in the balance of trade between January-June 1959 and January-June 1960

Millions of current dollars

	Imports c.i.f. ^a			Exports f.o.b. ^b			Balance		
	January-June		Change	January-June		Change	January-June		Change
	1959	1960		1959	1960		1959	1960	
I. United States and Canada									
Total trade	10 229	10 488	-259	10 063	11 865	+1 802	-166	+1 377	+1 543
of which : with									
Western Europe	2 582	2 765	-183	2 610	3 672	+1 062	+28	+907	+879
Eastern Europe ^c and Japan	547	657	-110	563	834	+271	+16	+177	+161
United States and Canada	3 438	3 475	-37	3 410	3 492	+82	-28	+17	+45
Primary-producing countries	3 662	3 591	+71	3 480	3 867	+387	-182	+276	+458
II. OEEC countries									
Total trade	22 335	27 255	-4 920	20 562	24 702	+4 140	-1 773	-2 553	-780
of which : with									
Western Europe	11 289	13 985	-2 696	11 099	13 855	+2 756	-190	-130	+60
Eastern Europe ^d and Japan	946	1 130	-184	782	1 033	+251	-164	-97	+67
United States and Canada	2 856	4 024	-1 168	2 494	2 645	+151	-362	-1 379	-1 017
Primary-producing countries	7 244	8 116	-872	6 187	7 169	+982	-1 057	-947	+110
III. Industrial countries (I+II above)									
Trade with primary-producing countries	10 906	11 707	-801	9 667	11 036	+1 369	-1 239	-671	+568
of which : with									
Overseas sterling area	4 396	4 615	-219	3 596	4 403	+807	-800	-212	+588
Latin America	3 523	3 616	-93	2 936	3 228	+292	-587	-388	+199

Sources: OEEC Statistical Bulletins — Foreign Trade, Series A; and national statistics.

NOTE.—For imports, increase signified by —, decrease by +.

^a For the United States and Canada, imports f.o.b.

^b For the United States, exports exclude special categories.

^c Including the Soviet Union.

^d Including the Soviet Union. For western Germany, excluding trade with eastern Germany.

total, and west German and British reserves declined, but in the first half of 1960 the increase in west German reserves accounted for more than 60 per cent of the total gain and higher British reserves for 10 per cent, while the increase slowed down very markedly in France and official Italian reserves declined slightly.

In western Germany the decline in the export surplus in the first seven months of 1960 was much more than offset by a fall in long-term capital exports and, more importantly, by an influx of short-term funds following the tightening of credit policy in June. As a result, official gold and convertible foreign exchange reserves increased by \$1.8 billion in the first nine months of 1960⁸ in contrast to the decline of \$0.8 billion in the corresponding months of 1959. Thus a monetary policy governed by purely domestic considerations has not only hampered the outflow of long-term capital — a prerequisite, in the absence of a revaluation of the Deutsche Mark, for reducing the west German balance-of-payments surplus — but also further accentuated international disequilibrium both

by attracting a massive return of short-term capital and by stimulating commercial banks' borrowing abroad. Moreover, the measures taken to discourage the influx of foreign short-term funds have proved ineffective inasmuch as these have sought outlets in the capital rather than in the money market.

In the United Kingdom the current surplus in the first half of 1960 amounted to just under \$100 million — or less than one-third of the surplus earned in the first half of 1959. Exports began to decline in the second quarter whereas imports continued to rise until September; and the surplus on invisibles was smaller than usual. Nevertheless, reserves rose in the first nine months of the year by some \$370 million, largely on account of an influx of short-term funds; but for this volatile item, reserves would already be dwindling. In France, on the other hand, where there were no hot money movements, a strong reserve position has been maintained on account of a higher trade surplus, higher receipts from tourism, and continued capital imports. As a result, and in spite of heavy repayments of foreign debts, gold and foreign exchange reserves rose by some \$390 million in the first nine months of 1960. Two further measures of liberalization of imports from OEEC countries and the dollar area were

⁸ In October there was a further increase of some \$240 million. In the first nine months of 1960 international reserves of commercial banks declined by about \$490 million.

TABLE 5

Foreign exchange reserves and trade balance of selected western European countries

Millions of dollars, and percentages

thus made possible. In the Netherlands the balance of payments has developed much more favourably than was anticipated earlier this year: the trade balance weakened only slightly, and the balances on services and on capital account both improved further.

In Italy there has been a substantial — and expected — deterioration in the trade balance, but other items of the balance of payments — particularly tourism — developed satisfactorily. In 1959 there had been a large-scale accumulation of international reserves and although official reserves have declined somewhat in 1960, there has been a much more than offsetting increase in the foreign exchange reserves of the commercial banks. The worsening of the external position in Austria and Denmark does not seem to have caused any concern as yet in view of the previous appreciable additions to exchange holdings in both countries.⁹ In the latter country the rapid rise in imports is regarded as the temporary outcome of vigorous restocking; and the authorities, in marked contrast to their earlier attitude, are now in favour of attracting foreign capital.¹⁰

The Trade and Payments of the United States

The United States balance of payments in the first seven months of 1960 was signalized by two features: a steep rise in exports, mainly to western Europe and Japan; and a massive outflow of gold and liquid funds to western Europe which set in after June and has since continued.

Total exports (excluding military shipments) were at seasonally adjusted annual rates of \$18.3 billion and \$19.6 billion in the first and second quarters respectively, compared with \$15.2 billion and \$16.2 billion in the corresponding quarters of 1959, and recent reports do not indicate any change in the past few months. Almost three-fifths of the increase from the first half of 1959 to the same period of 1960 was accounted for by industrial raw materials and semi-manufactured goods (which provided for barely one-fourth of total United States exports in 1959). Three-fifths of the increment in exports was absorbed by western Europe although it had bought only three-tenths of total United States exports in 1959; the remainder of the increase went to Japan and the primary-producing countries of Asia and Africa.

The increase of 50 per cent in the value of western Europe's imports from the United States between the first half of 1959 and the first half of 1960 was more than double the rate of increase both of total western European imports and of intra-trade. As a result, the United States' share of total western European imports has risen from 9 per cent to 11.5 per cent in the period

⁹ The increase in Austrian reserves in the third quarter was the seasonal effect of tourist receipts.

¹⁰ See *Politiken*, 16 August 1960.

under consideration, although still falling short of its share in 1956.¹¹ The highest rates of increase were recorded by the major industrial countries: France — 85 per cent; western Germany — 64 per cent; Italy — 62 per cent; and the United Kingdom — 58 per cent.

The American exports which advanced most rapidly on the western European market were raw cotton and civilian aircraft, each of which accounted for about one-fifth of the increase. Total cotton imports into western European countries rose sharply as a result of the textile boom, accompanied by strong stock-building, and the more competitive raw cotton prices introduced by the United States at the turn of the year.¹² Aircraft imports from the United States increased six-fold, reflecting the widespread change-over to jet planes by European airlines, and most types of machinery imports also increased substantially. Of semi-manufactured goods, iron and steel imports from the United States rose sharply after the 1959 steel strike as pressure on capacity mounted in western Europe while it was falling steeply in the United States. Non-ferrous metals, chemicals, paper and synthetic fibres all contributed significantly to the expansion of United States exports.

The rate of increase of total western European imports between the first half of 1959 and 1960 was twice that of industrial production, and imports from the United States rose four times as much as those from primary-producing countries. The vigour of this expansion was the result not only of stock-building of industrial raw materials and semi-manufactured goods, but also of the removal of almost all surviving discrimination against dollar imports of manufactured goods into western Europe.

Although global United States imports during the first half of 1960 declined somewhat below their level of the previous six months, they were still higher than in the corresponding months of 1959 or any earlier half-year period. But recent reports indicate an appreciable slowing down since July. As against this relative stability of overall imports, purchases from western Europe declined by 5 per cent between the second half of 1959 and the first half of 1960. Most of the decline occurred during the second quarter, when imports to the United States from western Europe

¹¹ In the EEC and the EFTA countries the corresponding shifts towards the United States as a source of supply were from more than 10 per cent to almost 13 per cent, and from less than 9 per cent to more than 10 per cent respectively.

¹² See *Economic Bulletin for Europe*, Vol. 12, No. 2, p. 10. As a result of the more advantageous terms for American cotton there was a shift of western European purchases from primary producers to American sources of supply. For five leading western European importers this shift amounted to some \$28.5 million between the first half of 1959 and the first half of 1960. This movement contributed to the deterioration of \$110 million in the balance of payments of the primary producers with western Europe during the same period.

TABLE 6

**Balance of payments of the United States with the world and western Europe
(excluding goods and services transferred under military grants)**

Millions of dollars

	January-June 1959		July-December 1959		January-June 1960		Change between January-June 1959 and January-June 1960	
	World	Western Europe	World	Western Europe	World	Western Europe	World	Western Europe
Merchandise exports	+7 862	+2 130	+8 363	+2 572	+9 606	+3 197	+1 744	+1 067
Merchandise imports	-7 481	-2 147	-7 834	-2 372	-7 674	-2 258	-193	-111
Balance on civilian merchandise trade	+381	-17	+529	+200	+1 932	+939	+1 551	+956
Services (net), excluding military	+470	-332	+538	-332	+443	-446	-27	-114
Military expenditure (net) ^a	-1 406	-815	-1 387	-707	-1 341	-706	+65	+109
Balance on goods and services	-555	-1 164	-320	-839	+1 034	-213	+1 589	+951
United States Government grants and credits (excluding military), and long-term capital movements (net) ^b	-2 176 ^c	-329	-1 469	+462	-2 144	-19	+32	+310
Balance on goods, services, government grants and long-term capital movements	-2 731 ^c	-1 493	-1 789	-377	-1 110	-232	+1 621	+1 261
Recorded short-term and other liquid capital movements	+2 206	+1 392	+1 531	+1 030	+1 256	+583	-950	-809
of which :								
Foreign, total	+2 101 ^c	+1 240	+1 725	+1 054	+1 415	+623	-686	-617
Dollar holdings	+1 609 ^c	+884	+1 486	+581	+1 271	+535	-338	-349
Gold purchases (sales +)	+492 ^c	+356	+239	+473	+144	+88	-348	-268
United States claims on foreigners	+105	+152	-194	-24	-159	-40	-264	-192
Errors, omissions and interregional transfers . . .	+525	+94	+258	-549	-146	-351	-671	-445

Sources : United States Department of Commerce, *Survey of Current Business*, June and September 1960.

^a Mostly for services rendered to United States forces stationed overseas. United States military grants are excluded from this and all other entries in this table.

^b Due to their quasi-liquid character, all foreign-owned United States Government securities have been included with "short-term and other liquid capital movements".

^c Excludes United States contribution to International Monetary Fund of \$1,375 million, of which \$344 million was paid in gold.

were 8 per cent below the level of the previous quarter and 6 per cent below that of the corresponding quarter of 1959.¹³ Keener competition for imported motor cars from domestic compact models partly explained the decline, but the sharp fall of iron and steel imports from their exceptionally high level during and immediately after the steel strike was equally important.

The combination of sharply rising exports and moderately falling imports raised the overall merchandise trade surplus of the United States to almost \$4 billion (at an annual rate) from the \$900 million achieved in 1959—the highest surplus achieved in any year during the past decade except 1956 and 1957 (see Table 6). Although western Europe accounted for less than 30 per cent of the United States trade in either direction, it was responsible for almost 60 per cent of the increase in the United States trade surplus between the first half of 1959 and 1960.

The United States balance of goods and services, including military expenditure, is closely parallel to the

¹³ It should be borne in mind that the 9 per cent decline in imports referred to on page 9 relates to the volume of imports into North America.

non-military merchandise balance. With the world it improved between the first halves of 1959 and 1960 by \$3.1 billion (at an annual rate), and with western Europe by \$1.9 billion. United States Government grants and credits and net private long-term capital movements resulted in annual debit items amounting in total to about \$4 billion in both 1959 and 1960. Had there been no change in the flow of short-term capital, the United States' balance-of-payments deficit would have been reduced by \$3.2 billion between the first half of 1959 and 1960. However, foreign liquid dollar assets have accumulated and United States' gold reserves declined at a combined annual rate of \$2.8 billion, which is only \$1.4 billion less than in the first half of 1959. The change of \$528 million in the recorded flow of United States' short-term capital is partly responsible for this discrepancy; the remainder is concealed in the "errors and omissions" item, which underwent a net change of more than \$1.3 billion (at an annual rate) between the first half of 1959 and 1960. Since July this capital flight has taken a particularly disturbing form in that net gold purchases from the United States, which had steadily declined

from \$834 million in the first half of 1959 to \$144 million in the first half of 1960, soared upwards, causing a loss of over \$1 billion to the United States' gold reserves between 30 June and early November 1960.

This massive outflow of short-term funds from the United States has been attributed both to the high interest rates prevailing in western Europe compared with those in the United States and to speculation concerning a revaluation of the Deutsche Mark or a possible devaluation of the dollar in terms of gold and perhaps of other national currencies. Speculation against the dollar continued on the eve of the presidential elections in spite of the steady and marked improvement in the United States balance of trade this year, which might have been expected to generate confidence in the

basic soundness of the United States balance-of-payments position. According to recent information the overall balance-of-payments deficit has risen very sharply since mid-summer, and on 16 November the President issued directives to cut spending abroad so as to check the drain on reserves. It is estimated that the cuts, which include the repatriation of dependents of United States military personnel abroad, would save a minimum of \$1 billion a year. So long as these speculative movements of short-term capital continue, they not only cause a maldistribution of international liquidity but also hamper national authorities in their efforts to maintain internal balance — as has plainly happened, although in opposite directions, in both western Germany and the United States.

4. POLICIES AND PROSPECTS IN WESTERN EUROPE

As was seen in the preceding sections, the fears repeatedly voiced in a number of countries — that the strain on resources arising from the rapid expansion would place a check on expansion itself and generate inflationary pressures — have not materialized. Nor, with the sole exception of the United Kingdom, has the balance of payments of any country weakened as has so often been the by-product of rapid expansion in the past. It is difficult to ascertain how far this untroubled progress is due to the judicious timing, combination and scope of policy measures or to favourable autonomous factors such as a high elasticity of output and rising world demand together with stable raw material prices and rapid productivity increases. At any rate the experience seems to have allayed the habitual nervousness of policy-makers confronted with a boom: in comparable situations in the past the measures adopted have succeeded in checking price increases or a deterioration in the balance of payments frequently at the cost of the stagnation of economic activity. The changed circumstances should also remove undue hesitation over the timely adoption of stimulating measures to prevent a slowing down in the rate of expansion from turning into a recession.

In the sphere of monetary policy, there have been few reinforcements of the restraints adopted earlier in the year and described in a previous *Bulletin*.¹⁴ Recent measures increasingly take account of the lesson of the last boom — namely, that to raise the cost of credit in boom conditions is not an efficient deterrent to credit expansion. The preference of the authorities in a number of countries for direct action on liquidity rather than on interest rates also reflects a new awareness of the dilemma, in conditions of convertibility and freedom of capital movements, between the domestic and international effects of autonomous and unco-ordi-

nated restrictive interest-rate policies. An inflow of foreign funds — attracted by high interest rates — into an international creditor country not only vitiates the desired check on domestic credit expansion by adding to liquidity but also places a strain on the international liquidity of countries whose balance-of-payments or reserve position is weak. Western Germany has been such an international creditor in 1960; but the measures taken since June to discourage the influx of short-term funds from abroad — the prohibition both of interest payments on foreign deposits and of the sale of money-market securities to foreigners — have done little to check the rapid increase in west German foreign exchange reserves. Such steps are, of course, irrelevant to the basic problem of the west German balance-of-payments surplus on current and long-term capital account.

In Switzerland, on the other hand, interest rates have been kept low so as to promote the outflow of liquid funds and thus counteract any threat to domestic financial stability arising from domestic conditions of strain.¹⁵ This policy was highly successful during 1959 and the early months of 1960, but international political developments since then have led to an influx of "hot" money in search of security. As a result, foreign exchange reserves increased from 15 July to 6 August by Sw. fr. 800 million. The National Bank therefore resorted — as on several previous occasions — to a gentlemen's agreement with the commercial banks, concluded on 18 August; the agreement provides that new deposits from abroad constituted after 1 July do not earn interest, can only be withdrawn at three months' notice, and are subject to a commission of $\frac{1}{4}$ per cent per quarter. Banks have also agreed to prevent the purchase from such funds of Swiss securities,

¹⁴ See *Economic Bulletin for Europe*, Vol. 12, No. 1, pp. 48-50.

¹⁵ Low interest rates are not a special inducement to invest, since the economy is accustomed to low rates.

real estate and mortgages. As a result, from the middle of August the level of gold and foreign exchange reserves stabilized, but towards the end of October there was a new increase due to further liquidations of dollars — principally by Swiss investors.

In the Netherlands, where the rapid rise of foreign exchange reserves in 1960 is also considered a potential threat to domestic financial stability, official policy has been — as in Switzerland — to keep interest rates relatively low. Traditional weapons to hold liquidity increases in check are considered insufficient and a new monetary technique of special deposits has been devised which is similar to that already applied in the United Kingdom since the end of April. An agreement was concluded in June between the Netherlands Bank and the other banking institutions requiring banks to deposit with the central bank and free of interest a sum equal at most to the amount by which the volume of credit granted to the private sector exceeds a fixed ceiling. In addition, the minimum reserve requirements, which remain in force, were raised from 7 per cent to 8 per cent on 22 July.

The influx into the United Kingdom of speculative short-term funds has been received with some uneasiness, despite the welcome addition to foreign exchange reserves which these funds represent. This concern has not arisen as in some other countries primarily on account of the addition to liquidity of the banking system but is rather due to the fear that a reversal of the flow, if it coincided with a further weakening of the balance of payments, might set off another crisis of confidence in sterling.

An instrument which only Sweden has so far used is intended to reinforce the effects of credit restraint on investment. It is an attempt to induce companies, by the grant of fiscal incentives, to postpone their investment projects in times of boom by depositing part of their profits in an investment fund which will be released in order to quicken investment during a downturn. This device, which has been in use since 1955, was fortified in June by the introduction of new rules providing for 46 per cent of the investment fund to be blocked in a special interest-free account with the central bank. For the tax year 1961 the tax relief will amount to 12 per cent of the amounts deposited before the end of July, and 8 per cent of amounts deposited before the end of October. The response to this inducement has already been very favourable.

In France, as on several other occasions during the fifties, the timing of changes in the pace of economic expansion has differed from that in other western European countries and in October measures for a moderate stimulation of economic activity were adopted. The discount rate was lowered from 4 to 3½ per cent and hire-purchase terms were eased. At the same time a tighter system of liquidity ratios was introduced so

as to offset the possibly inflationary repercussions of these measures.

As was anticipated in a preceding *Bulletin*,¹⁶ the budgets for 1960 have had, on the whole, a neutral or mildly dampening effect on economic activity in most western European countries. With rising incomes, tax receipts increased faster than in 1959 (except where, as in Denmark, there is a substantial time-lag between income accruals and tax collection) but in most cases this built-in stabilizing effect was partly or wholly offset by higher public expenditure. In Austria, where an energetic counter-cyclical public expenditure policy has been the aim for some time, government sector operations have so far positively contributed to the maintenance of financial stability in spite of rapid growth. At present, however, great difficulties are arising in the application of budgetary restraint because of the heavy claims on expenditure made by various interests. In the budget for 1961 total expenditure is estimated to rise to Schillings 47 billion or by about 12 per cent — i.e. faster than the estimated 6 per cent increase of the gross national product. Taking into account the yield of expected increases in railway tariffs and prices for cigarettes, various taxes and import duties as well as higher tax receipts, and, on the other hand, additional expenditure on a major revision of pensions, an ordinary deficit of some Schillings 310 million will result. The extraordinary budget shows a deficit of Schillings 2.3 billion. The inflationary dangers inherent in mounting public claims on resources and a budget deficit under present boom conditions has caused concern in some quarters.¹⁷

Of the other budgets for 1961 which have been published, that for western Germany provides for a further substantial increase in central-government expenditure — mainly for social security and defence. The Minister of Finance, who for some time has been under pressure to adopt an active counter-cyclical policy, has stated that the following moves will be made in this direction: restriction, as far as possible, of government recourse to the capital market; maintenance of balance between expenditure and revenue; application of additional receipts to the financing of budgeted expenditure which otherwise would have to be covered by borrowing; and, finally, continuation of substantial payments abroad so as to reduce the domestic money supply.¹⁸ Details concerning the budgetary measures

¹⁶ See *Economic Bulletin for Europe*, Vol. 12, No. 1, p. 48.

¹⁷ See, for instance, Professor F. Nemschak, "Aspekte der Österreichischen Konjunkturpolitik", Österreichisches Institut für Wirtschaftsforschung, Vorträge und Aufsätze, Heft 13; *Der Österreichische Volkswirt*, 14 October 1960; and *Die Industrie*, 30 September 1960.

¹⁸ Net government payments abroad amounted to DM 1.3 billion in 1958, DM 2 billion in 1959 and 1960, and will probably reach DM 2.5 billion in 1961.

taken in Belgium to deal with the problems arising from the events in the Congo and a review of the mildly stimulating French budget are given below. In the Netherlands, the 1961 budget makes a novel provision for conditional tax reductions which will be effected in July 1961 if monetary equilibrium is maintained: income taxes would be reduced by 10 per cent and company taxes from 44-47 per cent to 40-43 per cent. The temporary lowering of the investment allowance in April of this year is retained, as are the increased taxes on petrol and certain luxury goods; and some smaller changes in capital and turnover taxes are foreseen. The tax reductions are intended to halt the more rapid increase in tax receipts than in national income that resulted from the progressive character of certain taxes.

Recent Developments in Selected Western European Countries

In western Germany industrial expansion continued with exceptional vigour although lately there has been some slowing down in the rate of increase. From being almost 13 per cent above the level of the corresponding period of 1959 in the second quarter of 1960, industrial output was 9 per cent higher in the third quarter than in the same months of 1959. Despite anxieties that pressure on resources would generate inflationary price increases, as yet there is no evidence of an increase in the general price level; but wage increases have speeded up substantially in recent months and some ex-factory prices are beginning to move upwards slightly.

Divergent tendencies have recently appeared in the rates of expansion of the industrial sectors: the growth of output is slowing down in some consumer-goods and basic materials industries, while output and demand in the investment-goods sector and in chemicals continue to increase very rapidly. Incoming orders for investment goods still exceed deliveries so that order books and delivery times continue to lengthen. According to the latest IFO inquiry on investment intentions, a 20 per cent increase in industrial gross fixed investment is expected in 1960:¹⁹ rationalization is the main objective except in the investment-goods industries themselves, where 47 per cent of the reporting firms stated that their primary aim is the enlargement of capacities.

In spite of the slower increase in employment, total disposable incomes in the second half of 1960 will probably exceed the level of the corresponding period of 1959 by 8 per cent. This is expected to invigorate consumption — particularly since the savings ratio has recently been declining slightly.

West German gold and foreign exchange reserves have continued to rise very rapidly — by \$1.8 billion between the end of 1959 and September 1960 — to

reach \$6.8 billion, even though the trade surplus has lately diminished. As was mentioned above, the repatriation of west German funds from abroad, foreign buying of west German securities and the decline in long-term capital exports all contributed to the augmentation of reserves.

After the series of restrictive monetary measures taken in June of this year, the authorities still consider that dangerous inflationary potentialities persist and that further action is required. This view is not shared by representatives of west German industry: a spokesman of the German Federation of Industry has firmly denied that the economy is generally 'overheated' and argued that since production has adjusted itself surprisingly well to demand it would be regrettable if new overall dampening measures were adopted. The Federal Association of Private Banks, in its annual report for 1959-1960, joined the Bundesbank in its repeated appeals for the strong support of deflationary monetary policy by the public sector — support which has so far been very limited. It recommends, in addition to an appropriate budgetary policy, the abolition of a number of stimulating measures (such as various subsidies or depreciation allowances) which were adopted under entirely different conditions in the earlier postwar years. Discussions on what further policy measures are required are taking place almost continuously between the Bundesbank, the interested ministries, members of parliament, and industry. Foremost among the government proposals is the temporary abolition of both the existing turnover tax on imports and the reimbursement of the turnover tax on exports; it is argued that other means of action affecting foreign trade are now circumscribed since autonomy in respect of tariff policies has been reduced as a result of membership of the European Economic Community. It is nevertheless difficult to estimate how effective this measure is likely to be. The Government further plans to reduce excess liquidity by increasing pre-payment of certain taxes in 1961. In addition, west German business has submitted a scheme of measures to check undesirable side-effects of the boom: the exercise of voluntary price restraint by industry, the establishment of an investment fund on the Swedish model (see above) and the postponement by public authorities of less essential building projects so as to relieve strain on the building sector.

In response to the charge that western Germany does not fulfil its international obligations as a creditor country, the President of the Bundesbank, after emphatically rejecting any possibility of revaluing the Deutsche Mark, stated at the annual meeting of the International Monetary Fund in September that "there is no doubt that from the external point of view we should rather have lower interest rates while our internal boom conditions have forced us to adopt a

¹⁹ IFO Schnelldienst, No. 33/34, 17 August 1960.

relatively high rate of interest. We hope, however, that we shall soon see some relaxation of the strains in our economy so that we may be able to bring our interest-rate level closer to the level appropriate under international considerations, thus discouraging inflows of foreign funds and giving a new impetus to private long-term capital exports." In fact, the discount rate was reduced from 5 per cent to 4 per cent on 10 November. It was also announced (by the Minister of Economics at the same meeting) that private business proposes to make DM 1 billion available for long-term untied credits to under-developed countries and that the government, in addition to the fund previously set up for insuring private foreign investment against political risks, now intends to raise "substantial amounts" for long-term lending to those countries. Since then private industry has agreed to raise the original amount to DM 1.5 billion — i.e. almost \$360 million; an equivalent amount is to be supplied from central government funds in addition to about \$90 million earmarked in the Federal budget for technical assistance, and the Länder are expected to contribute some \$120 million. These contributions amount in total to almost \$1 billion.²⁰

In the *United Kingdom* concern earlier in the year lest demand should tend to outstrip the potential expansion of supply has yielded to anxiety — in unofficial quarters — lest aggregate demand should, in the absence of government action, soon become insufficient to absorb the potential increase in supply.

The only policy measures that might be held responsible for this change in the economic climate are, first, the restrictions on hire purchase and, second, the operation of a system of special deposits lodged by commercial banks in blocked accounts with the central bank, both of which were instituted earlier this year. The hire-purchase restrictions have certainly caused the fall in sales of consumers' durables, for many of which demand was already slackening after the rapid expansion of 1959 and the early part of 1960. Moreover, the restrictions have taken effect, particularly for motor vehicles, at a time of normal seasonal decline in home demand, reinforced by difficulties in important export markets.²¹ The credit squeeze, on the other hand, seems only now to be making itself felt, judging by the latest statistics on bank advances. Industrial production has been virtually stable since April, though with rare exceptions there is no evidence that capacity

²⁰ Private and public capital exports from western Germany to primary-producing countries averaged just under \$90 million and \$36 million respectively in the last few years. The corresponding sums for the United States are \$800 million and \$594 million, and for the United Kingdom to the overseas sterling area \$530 million and \$127 million.

²¹ In consequence, many workers in the motor car industry have been put on short-time work and some have been declared redundant.

limits have been reached. The quite substantial additions to stocks of materials and semi-finished goods (reflected until recently in the rising import bill) seem likely to peter out, perhaps partly in response to monetary restraint. Some economic indicators suggest a risk of a weakening of demand in certain sectors in the months ahead, whereas in others, such as fixed investment, the outlook is more favourable.

In spite of the fall in the sales of consumers' durable goods, retail sales have in general held up well, though they have not risen significantly in volume since the beginning of the year. Total private consumption (seasonally adjusted) rose no further in the second quarter; however, some restraint on the expansion of consumption was intended so as to accommodate the anticipated upsurge in investment without overburdening the economy. Private industry and business will probably invest 20 per cent more in fixed capital in 1960 than in 1959, but the rate of increase is expected to slow down to just over 10 per cent in 1961.²² In addition, a further, though much slower, increase in private dwelling construction is probable; and notwithstanding the announcement that public investment is to be held at its present level, it could be accelerated without difficulty — provided the decision is taken in good time — if building and contracting resources become idle. In sum, although resources are at present fairly fully occupied, reasonable doubt persists about the outlook for the coming months.²³

The most disturbing aspect of the present economic situation is the weakness of British exports which, having gained less from the expansion of world trade in 1959 than those of most other countries, have been stable (on a seasonally adjusted basis) if not actually declining, since March, thus accentuating the fall in Britain's share in world exports. Even though imports have also stopped rising, it is none the less clear that the current payments balance for the year will be disappointing in the light both of policy objectives and of the no more than moderate pressure on domestic resources.²⁴

Given these divergent tendencies, official policy remains one of restraint, primarily because it is feared that a quickening of the rate of expansion might

²² A further increase for investment in manufacturing by 20 per cent is none the less anticipated in 1961, see *Board of Trade Journal*, 9 September 1960.

²³ Results of the recent inquiry of the Federation of British Industries suggest that optimism about the business outlook is now much less than it was four months ago. One-third of the replies are less optimistic than four months ago, as against one-fourth in the previous inquiry; and 22 per cent now indicate orders and sales as the limiting factor, as against 15 per cent four months ago.

²⁴ The current surplus in the first half of 1960 was only £35 million, as against £226 million and £116 million in the corresponding periods of 1958 and 1959, when pressure on resources was also quite moderate.

initiate a spiral of cost inflation and that the balance of payments might further deteriorate as increasing costs spread to the export trades. Prices have already crept upwards and it is likely that, after a year's lull, wages will start to rise again — probably faster than productivity, for it is questionable whether current wage bargaining will be influenced by the present circumstances of restraint.

In the past, sustained expansion has been hampered by both the impact of temporary excess demand on imports and the weakness of exchange reserves. Now, with the improved net external position of the United Kingdom, backed by the greater resources obtainable from the International Monetary Fund, any temporary excess demand generated by expansion presumably need not lead to a dangerous drain on international reserves. Clearly, the principal factor now restraining long-term expansion is the structural weakness of exports and, whatever the case may be for maintaining restraint in the short run,²⁵ it is difficult to see what such restraint can contribute to solving this problem.

In France the first three quarters of 1960 have been distinguished by domestic financial stability, a vast improvement of the foreign exchange position, and, more recently, an upswing in industrial investment.

Industrial production has fluctuated irregularly during the past year. After an unexpectedly rapid upsurge in the fourth quarter of 1959, there was a slight levelling off in the first quarter of 1960, and then a resumed increase. The annual rate of industrial growth was about 9 per cent in the first half of 1960. Expansion has been rapid in steel, certain investment-goods industries and chemicals; but there has been a slow-down of the increase in output of motor cars (affected by the decline in export orders from the United States), refrigerators, other household goods and woollen textiles, and a downturn in leather production. The coal-mining and shipbuilding industries continue to be in difficulties.

The figures below show that the rate of growth of domestic product in 1960 has recently been officially estimated at 5.4 per cent, compared with only 2.5 per cent in 1959. Whereas in 1959 public expenditure and exports were the main supports of moderate overall expansion, in 1960 all sectors of demand have contributed to the higher rate of growth, with marked increases in exports and private investment compared with 1959. Private consumption has probably increased least after virtual stagnation for two years: the real

²⁵ While there are different views outside official circles on whether and when to relax hire-purchase restrictions and credit control, there seems to be more general agreement that the maintenance of a high bank rate has become pointless. It has little relevance to the internal or external position and it would be unwise to maintain too much rigidity too long "merely for fear that minor adjustments might be misinterpreted as a change of direction". (The Governor of the Bank of England in a speech reported in the *Financial Times*, 21 October 1960).

wage bill has risen by about 4.5 per cent, but the purchasing power of incomes of unmarried workers has only now attained the level of mid-1958 and the purchasing power of workers' families remains substantially below that level.²⁶ The estimates for 1960 correspond fairly closely to the targets set in the interim two-year plan published in June of this year — the achievement of which was intended to make up for time lost in carrying out the Third Modernization and Equipment Plan. Imports from and exports to foreign countries and exports to French overseas territories are the major exception — the estimated rates of increase for 1960 greatly exceeding the target figures.

Supply and use of resources in France

Percentage change in volume from previous year

	1959 actual ^a	Interim plan 1960	Estimates ^b 1960 1961	
<i>Resources</i>				
Gross domestic product . . .	2.5	5.5	5.4	5.5
Imports from foreign countries	1.0	10.8	17.9	6.1
Imports from French overseas territories	-0.7	16.5	16.2	18.5
Total imports . . . . .	..	..	17.5	8.9
<i>Use</i>				
Consumption of households . . .	1.3	4.3	4.0	5.0
Public consumption . . .	8.0	8.0	8.2	2.9
Gross fixed investment . . .	0.4	5.5	5.6	6.5
Exports to foreign countries . .	32.0	15.8	20.1	9.8
Exports to French overseas territories	2.0	6.9	12.0	12.1
Total exports . . . . .	..	..	17.0	9.9

^a *Rapport sur les Comptes de la Nation de l'année 1959*, Imprimerie Nationale, Paris 1960.

^b Ministère des Finances, *Comptes prévisionnels pour 1960*, Service des Etudes économiques et financières.

No sufficiently recent data are available which permit an estimate of the pace of the autumn revival of industrial production, but entrepreneurs' expectations for the rest of the year (as reported by the last INSEE inquiry)²⁷ suggest that demand continues to be a limiting factor and that no marked change from the present level of production is anticipated. Although bad weather conditions have affected the quality of some agricultural products, and total agricultural output will exceed the 1959 level by less than 3 per cent, supplies of most foodstuffs should be abundant and thus promote price stability and buttress the balance of payments. Foreign exchange reserves, which had increased by \$670 million in 1959, continued to grow and reached \$2.1 billion in September, even though exports have recently been stagnating and substantial advance repayments of foreign loans have been made.

²⁶ As from 1 October the minimum wage has been raised by 2.31 per cent and civil servants' salaries by 2 per cent.

²⁷ See *Etudes et Conjoncture*, September 1960, Institut National de la Statistique et des Etudes économiques.

A number of measures for the mild stimulation of domestic activity have been adopted. The budget for 1961 provides for an increase in public investment — notably for education and scientific research — but the main stimulus is to come from public expenditure on salaries, subsidies and other transfer payments. As a signal of a new policy course — and earlier than measures taken elsewhere — the discount rate was reduced in October from 4 to 3½ per cent and hire-purchase restrictions were eased at the same time. It remains to be seen whether these measures will prove adequate for securing the rates of growth of private consumption and gross fixed investment presented in the above estimates for 1961.

Steps have also been taken to explore the structural changes that are needed to ensure long-term growth. An industrial and commercial development corporation and a centre for research into investment have been created for this purpose. Moreover, the committee which was set up in November 1959 to examine the factors which constitute major obstacles to long-term economic expansion issued a report²⁸ in July identifying these impediments and proposing reforms. The recommended reforms are grouped under five major headings: measures for removing such rigidities from the French economic and social system as restrictive practices in industry, agriculture and the professions; the restoration of equilibrium between prices and costs in the fields of transport, rents, government monopolies and various sectors of industry and trade; the elimination of obstacles to harmonious growth by means of an improvement of distribution systems, an increase in the productivity of trade, the solution of various employment and migration problems and better regional policies; the improvement of information and education; and, finally, administrative reforms.

The emergency in the Congo affected the economy of Belgium when it was in a phase of rapid expansion and this is likely to render less difficult the solution of some of the problems caused by the breach between Belgium and its former colony. The main economic indicators show that the high rate of growth which started during 1959 continued in 1960. During the first eight months of the year industrial activity was almost 10 per cent higher than a year earlier and prices were stable. No figures on total industrial output are yet available for more recent months, but judging from data on employment and new orders there is no sign, so far, of a basic change of tempo. In the first half of 1960 export demand, which is an outstandingly important determinant of domestic economic developments in Belgium, had reached record levels. The trade deficit in the first seven months of 1960 declined to Belgian

francs 1.8 billion from 4.4 billion in the same period of 1959. Now, however, the rate of export expansion appears to be slowing down, mainly owing to the decline in exports to the United States. The impact on the Belgian economy of events in the Congo is considered below in three of its aspects: the balance of payments, employment and the budget.

From 1956 to 1959 Belgium had a substantial balance-of-payments surplus on current account with the Congo — of about 13.4 billion francs on average per year (see Table 7). This largely arose from a surplus on private investment income and on transport and insurance services. Income from investment, including both dividends distributed by Congolese companies and interest on Congolese public debt, amounted to an annual average of 3.1 billion francs. It is impossible to foresee how much of this income will be lost, but the fear of a possibly massive loss has strongly disturbed stock-exchange quotations. The price index for colonial shares, which stood at 104 in January 1959, declined to 72 at the end of the year and to 39 by mid-August 1960.²⁹ The total market value of Congolese shares declined from Belgian francs 60 billion at the beginning of 1959 to 21 billion in July 1960 — or only 14 per cent of the market value of all shares quoted on the stock exchange.

The size of service income is such that, if there were a complete cessation of economic relations between the two countries, the loss to the Belgian balance of payments could be significant; as it is, some enterprises engaged in this trade may face difficult adjustments of their activities. For example, traffic with the Congo accounted in recent years for 45 per cent and 70 per cent respectively of the total traffic of Sabena Airlines and the Compagnie Maritime Belge. However, the re-employment of air services may not be insuperably difficult — Sabena traffic has already expanded in other areas, particularly Latin America. In any case, no less than two-thirds of the intra-African traffic of Belgian airlines is apparently continuing.

Belgium's trade with the Congo represented in recent years a fairly small — and decreasing — proportion of its total trade. Belgian exports to the Congo declined from 4.8 per cent of total exports in 1955 to 2.8 per cent in 1959; the corresponding proportions for imports were 8.2 per cent and 5.7 per cent.³⁰ The composition of exports was very diverse, although machinery and equipment and iron and steel preponderated. Even in the event of a weakening of trade ties between the two countries, or of a temporary disruption of the Congolese economy, alternative markets could be

²⁸ *Rapport du Comité chargé d'enquêter sur les obstacles à l'expansion économique*, Paris, July 1960.

²⁹ In the same period, the index of Belgian shares rose by about 6 per cent and that of foreign shares by 9 per cent.

³⁰ The figures are derived from trade statistics and differ from the balance-of-payments figures shown in Table 7.

found for most of the commodities sold to the Congo.³¹ The increase of total Belgian exports in the first eight months of this year amounted to more than Belgian francs 20 billion, which is far more than the value of total exports to the Congo in the last three years. Belgian imports, on the other hand, are heavily concentrated on primary products.³² It is possible that — if the necessity really arises — the establishment of new trade contacts and other sources of supply of such items as copper, tin and cobalt, almost all of which have been supplied by the Congo, may create temporary difficulties. Conversely, Congo ores and metals may not readily find new markets outside Belgium and it is likely that the Congo will continue to look to the Belgian market as a major outlet for these products.

An attempt has been made by the Banque de Bruxelles³³ to calculate the magnitude of the weakening of Belgium's external position in the event of a complete break of commercial and financial relations with the Congo. On the assumption that trade can be totally diverted, that part of the loss of transport receipts can be recovered, and that the temporary decline in activity will improve the balance of payments with the rest of the world, it is estimated that there would still be a total surplus on current account of about 4.4 billion francs.³⁴ The volume of additions to foreign-exchange reserves, which has averaged Belgian francs 3.6 billion, would therefore depend on whether public and private capital exports can be reduced. A decline in the outflow of private capital will, in turn, depend on the adoption of policies appropriate to creating a climate of confidence in domestic expansion and in the stability of currency.

The impact on gross national product has also been estimated on the basis of the loss of income from trade and invisibles. Putting the secondary effects of such a loss of income at between roughly 150 per cent and 250 per cent of the initial figure of Belgian francs 10 billion (see footnote 34), the outcome would be a loss of gross national product between 2.6 per cent and 4.4 per cent.³⁵ On the assumption that economic growth will continue at the same average annual rate as in the

³¹ Belgian exports to the Congo did not benefit from preferential treatment.

³² Non-ferrous metals, for example, represent more than one-half of total imports from the Congo.

³³ In its *Economic Bulletin*, No. 8, September 1960.

³⁴ The loss to the balance-of-payments surplus on current account with the Congo of 13.4 billion francs per annum is reduced to 10 billion francs on the assumption that trade is totally diverted but part of transport receipts recovered. The temporary decline in activity is estimated to improve the balance of payments by about 3 billion francs. There should therefore be a deterioration in the overall balance of payments on current account of about 7 billion francs, thus reducing the total surplus on current account to 4.4 billion francs.

³⁵ The loss of income would be between Belgian francs 15 billion and 25 billion; average gross national product in the period 1956-1959 amounted to about 570 billion francs.

TABLE 7

Balance of payments of the Belgium-Luxembourg Economic Union

Annual averages 1956-1959 : billions of Belgian francs

	Overall	With the Congo and Ruanda-Urundi	With the rest of the World
1. Merchandise			
Exports f.o.b.	138.3	6.0	132.3
Imports f.o.b.	-140.5	-5.0	-135.5
Trade balance	-2.2	1.0	-3.2
Other merchandise transactions	3.3	0.1	3.2
Total	1.1	1.1	—
2. Invisibles			
Tourism, transport and insurance	2.6	5.3	-2.7
Income from investment	2.6	3.1	-0.5
Other	3.7	2.4	1.3
Total	8.9	10.8	-1.9
3. Goods and services (1+2)	10.0	11.9	-1.9
4. Donations	1.4	1.5	-0.1
5. Balance on current account (3+4)	11.4	13.4	-2.0
6. Private capital movements^a	-5.7	-0.2	-5.5
7. Public capital movements^b	-2.0	-1.0	-1.0
Long-term	1.1	-1.6	2.7
Short-term	-0.9	-2.6	1.7
Total	-6.6	-2.8	-3.8
9. Unidentified items,^c errors and omissions	-1.2	0.1	-1.3
10. Total^d (5+8+9)	3.6	10.7	-7.1

Source : Banque nationale de Belgique, *Bulletin d'Information et de Documentation*, June 1960.

^a Private capital transfers to or from the Congo in 1959 already reflect an abnormal situation. The averages for 1956-1958 were -6.8 for the overall balance, -1.4 for the balance with the Congo, and -5.4 for the balance with the rest of the World.

^b Excluding those of monetary institutions.

^c Includes mainly goods and services transactions and private capital movements which could not be distributed among the different items.

^d Corresponds to the change in net assets of monetary institutions. Multilateral settlements are excluded from the regional totals.

last three years — that is by more than 3 per cent — the loss arising from a complete breach with the Congo would amount to little more than one year's increment of gross national product.

As for the effect of the events in the Congo on employment, it has been estimated that, on the hypothesis of the total repatriation of Belgians from the Congo,

the persons to be reintegrated in the Belgian active population would represent no more than 2 per cent — on average — of the total numbers in the categories to which they belong.³⁶ Hence it is believed that even a total disappearance of Belgian enterprises from the Congo would not place a severe burden on the labour market — indeed, some quarters would even welcome the arrival in the country of new vital forces which "could give to Belgium on the economic plane the new dynamism which it has manifestly lacked until now. . . ."³⁷ In fact, recent reports state that about 8 civil servants in 10 but only 2 persons of every 10 employed in the private sector have been repatriated since the beginning of the disturbances;³⁸ and a large number have apparently since returned to the Congo.³⁹

In the short run, the Congo crisis will seriously affect the budget. The main burdens on expenditure are the absorption of former Congo civil servants into the Belgian administration, repatriation and subsistence payments to refugees, loss of taxable income, subsidies to the Congo and the cost of military operations last summer. In addition, there is the problem of the external public debt of the Congo guaranteed by the Belgian Government.⁴⁰ In 1960 total disbursements for the Congo and Ruanda-Urundi will exceed budgetary allocations by as much as Belgian francs 1.5 billion, or just over 1 per cent of total budgetary expenditure. According to provisional estimates for 1961, the direct ordinary budget disbursements on account of overseas territories, reparations to Belgian citizens, and other payments arising from events in the Congo, will reach a total of some Belgian francs 4 billion, while the direct and indirect loss in fiscal revenue is put at 2 billion francs; in total these outgoings amount to some 5 per cent of ordinary expenditure.

Both short-term and long-term policies have been elaborated to counter the impact of the Congolese developments on the Belgian economy. The discount rate was raised on 4 August from 4 per cent to 5 per cent to counteract large-scale speculation against the Belgian franc and the resulting loss of gold and foreign exchange reserves. This and, probably more importantly, the appreciation of the basic strength of the Belgian

³⁶ See "Après le Congo" by Professor F. Bauduin, *La Libre Belgique*, 31 July 1960.

³⁷ For the expression of the view that the return of entrepreneurs and technicians may be a blessing in disguise, see "L'inter-pénétration belgo-congolaise sur le plan économique et financier", *Bulletin Hebdomadaire de la Kredietbank*, 6 August 1960.

³⁸ See "Les conséquences économiques de la séparation du Congo et de la Belgique", *Perspectives*, 17 September 1960.

³⁹ In August and September Sabena carried 4,200 passengers back to the Congo. This compares with approximately 4,500 departures of persons employed in the private sector. If such a rate of returns were to continue, the active Belgian population in the private sector in the Congo would rapidly regain its previous level.

⁴⁰ The public debt amounts to Belgian francs 57 billion and the Belgian Government is guarantor for 11 billion francs (plus interest).

economy and its international liquidity position resulted in an immediate decline both in the price of gold and foreign exchange and in a halt to the massive outflow of reserves.

In order to achieve budget balance in 1961, plans will be devised to reduce total current expenditure by Belgian francs 10 billion and to yield 6 billion francs of additional receipts from new taxes. Cuts will be made in national defence, education and social expenditure, and in payments to local authorities. The yield of the new taxation is to correspond to the budgetary losses already mentioned. The new budget takes into account the transfer to the ordinary budget of items (totalling Belgian francs 8 billion) formerly included in the extraordinary budget but in fact representing current expenditure. This switch aims at avoiding both excessive recourse to the capital market and a continuous increase in the public debt. In future, the ordinary budget will be run on more austere lines, but greater scope will be provided for the finance of both private and public investment on the capital market.

A five-year plan of economic development was announced by the Prime Minister on 27 September. Its main aims are to increase gross national product by at least 4 per cent per year, and to create 20,000 new jobs a year so as to maintain full employment and to stimulate new, expanding sectors. So far no specific policies have been adopted to implement the programme, but the Prime Minister has stated that vigorous efforts will be made to assist private investment. A national investment company and regional investment companies will be set up and supplied with funds; and a 15-year public investment programme for the purpose both of structural change and counter-cyclical action has been approved.

Boom conditions continue in Austria, Denmark, the Netherlands, Norway, Finland and Switzerland, although everywhere the rate of expansion appears to have slowed down slightly because of labour scarcities and, in some of them, also on account of weakening demand pressure as expressed in incoming orders. In Italy the only factors at all likely to dampen the boom are the decline in agricultural production, and hence in farm incomes, due to adverse weather, and the slower rate of residential building. According to a recent statement by the Budget Minister,⁴¹ an increase of 7 per cent in gross national product is expected in 1960; this is barely higher than the increase achieved in 1959 and less than expected earlier in the year. In the Netherlands, on the other hand, new estimates for the year 1960 (published in the introduction to the 1961 budget)⁴² are higher than those made in the Central Economic Plan earlier

⁴¹ See *Mondo Economico*, 8 October 1960.

⁴² See *Nota betreffende de Toestand van's Rijksfinanciën*, 1961, The Hague, 1960.

this year. Thus gross national product is now expected to rise by 8.5 per cent in 1960 instead of 5.5 per cent (and 5 per cent in 1959) and this rate is estimated to slow down to between 5 per cent and 6 per cent in 1961. The estimated increase in gross fixed investment by enterprises has been raised from 14 per cent to 15 per cent (8.5 per cent in 1959) and exports from 7 per cent to 11 per cent (11 per cent in 1959). The balance of payments is expected to yield a smaller surplus than in previous years. The situation in 1960 is thought to differ greatly from that in 1956: now the primary impulse to expansion comes from export demand; then it sprang from a steep increase in domestic expenditure following large wage increases and lower taxation.

In Norway estimates recently published in the national budget⁴³ suggest that the results for 1960 will exceed the forecasts made earlier this year⁴⁴ for all components of gross national product. As a result, gross national product is likely to grow by 6 per cent as against the 4.5 per cent earlier foreseen. Forecasts for 1961 indicate a slowing-down in this rate of growth to 4 per cent with varying developments in the use of resources. The rate of expansion of exports is expected to slow down from 10 per cent in 1960 to 6.5 per cent in 1961, but that of public non-military and private consumption should be unchanged. Of gross fixed capital expenditure, investment in ships is forecast to increase by 6 per cent in 1961 as opposed to a decline of 7 per cent in 1960, whereas the estimated rates of expansion for investment in machinery and transport equipment are 1 per cent in 1961 compared with 16 per cent in 1960; and additions to total available goods and services from commodity imports are expected to decline from 12 per cent to 5 per cent. In Finland, too, the economic review accompanying the 1961 budget is optimistic. The current boom is expected to continue for several months at least — and perhaps throughout 1961 if foreign trade develops favourably. The rate of increase of gross national product is estimated at about 8 per cent in 1960 (as against 6 per cent in 1959 and approximately 5 per cent next year).⁴⁵

In Sweden the upsurge of industrial production in the second half of 1959, after years of slow growth or stagnation, was short-lived and a plateau was reached by the first half of 1960 — although for the year as a whole industrial output is expected to increase by 7 per cent over the 1959 level.

Recent Developments in Southern Europe

Recent economic developments in the smaller countries of southern Europe are not easy to assess, since,

⁴³ See *Nasjonalbudsjettet 1961*, St. meld. No. 1, Oslo 1960.

⁴⁴ See *Economic Bulletin for Europe*, Vol. 12, No. 1, p. 50.

⁴⁵ See *Ekonomisk översikt*; Bilaga till Regeringens proposition till Riksdagen angående statsförslaget för år 1961.

with the exception of Greece, they provide few up-to-date economic indicators. The Spanish economic stabilization programme has achieved domestic and external financial stability at the price of the stagnation of economic activity. In Turkey the balance of payments is still the salient problem even though industrial activity is stagnating. Economic growth in Portugal proceeds at only a moderate rate, and in Greece there have recently been signs of a revival of activity after the marked slowing down in the last three years.

In Spain the stabilization programme which was introduced in the summer of 1959 has been successful in achieving and maintaining price stability and in considerably strengthening the balance of payments.⁴⁶ Yet its dampening effects continue to be felt and the hoped-for upturn in economic activity has not materialized despite the stimulating measures taken earlier this year.⁴⁷ Private investment was severely affected by stagnating or falling demand and appears to have been quite substantially curtailed. Consumer expenditure has also contracted as a result of higher unemployment, shorter hours worked and reductions of wages to the legal minimum.⁴⁸ On the other hand, public expenditure seems to be running at higher rates than foreseen in the budget. Industrial production in the last three months for which figures are available⁴⁹ was 1.5 per cent below the level of the corresponding period of 1959, with the greatest decline in output of consumers' durables and investment goods. This year's harvest is estimated to be a good deal smaller than in 1959.⁵⁰

However, there have lately been certain signs which may point to a revival of economic activity in the near future. The Minister of Commerce announced in August that retail sales of food have increased and that stocks of such consumers' durable goods as motor cycles and refrigerators have declined. More importantly, total credits, having fallen by 1.7 billion pesetas in the first quarter of 1960, increased by 5.3 billion in the second quarter; but it is not known whether the new credits have been used largely for financing stocks of finished goods or for new investment. Public issues on the capital market have also increased and the chemical industry and public enterprises linked with the Instituto Nacional de Industria have recently been more active in making new issues. However, the arrangements made for the financing of new investment are not likely to be reflected in actual investment expenditure this year. Gross national product has probably not increased in 1960. The pace and stability of subsequent

⁴⁶ Official gold and foreign exchange reserves increased by some \$270 million between December 1959 and July 1960.

⁴⁷ See *Economic Bulletin for Europe*, Vol. 12, No. 1.

⁴⁸ Legal regulations prohibit the dismissal of redundant workers without the prior agreement of the authorities.

⁴⁹ February-April.

⁵⁰ See section 2 above.

economic growth will very largely depend on the elaboration and execution of institutional and structural changes in the next phase of the stabilization programme.

In *Portugal* exports had failed to expand in 1959, but public consumption and fixed investment had supported a moderate expansion of gross national product by some 3 per cent. In the first half of 1960 exports exceeded the level of the corresponding months of 1959 by 8.5 per cent and this, together with the continued advance of the two other expansive sectors of demand, has resulted in an accelerated increase in industrial production; and building activity has continued to rise. Agricultural output, on the other hand, has been adversely affected by bad weather for the third year in succession and, apart from olive and rice crops, the harvest has been poor. This will depress the rate of overall growth of output and also raised consumer prices in the summer months by about 2.5 per cent above the level of a year earlier. Foreign exchange reserves have not changed significantly and the international liquidity position of Portugal continues to be strong.

Energetic measures were taken in 1959 to accelerate economic development. The second six-year Development Plan covering the period 1959-1964 provides for total expenditure more than double that of the first Plan.⁵¹ An increase in outlays to 4.1 billion escudos from the 3.9 billion planned for 1959 is foreseen in 1960, but only three-fourths of this amount have actually been disbursed, since certain investment projects had to be postponed. The budget for 1960 provides for the traditional surplus, although total expenditure has been raised by 10 per cent. The increase of ordinary expenditure by 7 per cent is largely accounted for by higher salaries and pensions for civil servants; and within the 20 per cent increase in extraordinary expenditure, appropriations for the development plan have been raised by 25 per cent.

Even if the scheduled optimum rise of gross national product over the whole period of the plan by 32 per cent (or at an annual compound rate of 5.7 per cent) is actually attained, the achievement would still be quite modest in the light both of the urgent need to raise income per head to levels comparable with those prevailing in western European countries and of the possibilities for more rapid progress provided by a strong external position.

In *Greece* the substantial slowing down from previous years in the rate of growth of gross national product in 1958 and 1959 was mainly due to the unfavourable development of farm incomes. Although

agricultural production rose by almost 5 per cent in 1959, prices of the chief agricultural exports declined: tobacco prices have been falling as a result of the unfavourable development of foreign demand; and the prices of currants have declined, partly owing to the devaluation of the Turkish and Spanish currencies.

In 1959 the main support of the expansion of national output by 4.2 per cent was public investment, which rose by 28 per cent, and — to a much lesser extent — private fixed capital formation; consumer demand and exports rose relatively little. Industrial production increased by only 1 per cent (compared with rates of increase of 8 per cent and 11 per cent in 1957 and 1958 respectively), largely because textile production, which was severely affected by the accumulation of stocks in the two previous years, slowly declined. Foreign exchange reserves gained appreciably in 1959: the trade deficit declined, but at a lower level of trade, and income from shipping, tourism and emigrants' remittances rose considerably.

Developments in 1960 appear to be taking a more favourable turn and there are indications that the rate of expansion is quickening. It is true that total agricultural production is now expected to be some 3 per cent lower than in 1959, with increases in only the cotton and the citrus fruit crops, and this will again depress agricultural incomes. On the other hand, industrial output in the first half of 1960 was 2.5 per cent above the level of the corresponding period in 1959. Public investment continues to rise rapidly towards the targets of the long-term development programme, which aims at an increase in the gross fixed investment ratio from 15 per cent in 1959 to 21 per cent in 1969 and at nearly doubling the share of investment in manufacturing at the expense of investment in dwellings. Credit conditions have been eased, but private investment in 1960 will probably not exceed its 1959 level because of uncertainty concerning Greek participation in the Common Market; it is expected, however, that private investment expenditure will revive in 1961. Another favourable factor in the present situation is the continuing growth of foreign exchange reserves and, in the longer run, the repatriation of Greek ships. Prices of exports are unlikely to decline further, income from invisibles and emigrants' remittances show a steadily rising tendency, and increased drawings on American aid are expected in the second half of the year. The more comfortable balance-of-payments position should provide a sufficient external margin for a further acceleration of domestic expansion.

In *Turkey* inflation and a precarious balance of payments have dominated the economic scene for some time. The stabilization programme of 1958 succeeded in reducing the degree of inflation,⁵² but there are no signs

⁵¹ At the same time a National Development Bank and a National Institute for Industrial Research were set up, the former to assist in the financing of the Plan and the latter to support private-sector investment.

⁵² The index of wholesale prices has stopped rising in recent months.

as yet of the much-needed expansion of exports, and industrial activity appears to be stagnating. The prospects for agricultural output in 1960 are good although the harvest results have fallen short of earlier optimistic expectations. Retail sales have recently slumped and large stocks of imported goods are accumulating. This has been due to increases in unemployment and under-employment and probably also to expectations of price cuts.

The new government is endeavouring to stimulate economic development while preventing renewed inflationary pressure. It has severely curtailed the investment plans foreseen under the stabilization programme by postponing some projects and cancelling others. The investment effort will be kept as far as possible within the limits of domestic resources and an attempt made to improve the co-ordination of investment plans. The new economic programme (which has not yet been published) is reported to have as two of its important features a reform of the tax system, providing for the taxation of agricultural incomes, and a land reform.

The balance-of-payments deficit remains an intractable problem. The value of imports in the first six months of 1960 rose by 13 per cent above the corresponding level of 1959, but exports declined by over 14 per cent in the same period. The trade deficit, together with the servicing of foreign debts and the deficit on invisibles, leaves an annual gap of \$100 million — even when annual receipts of aid of about \$100 million are taken into account. The Turkish Minister of Finance expressed in September the hope of the government that foreign creditors would find means of easing the debt burden during the coming five years.

Note on Yugoslavia

In Yugoslavia the chief aim of recent economic policy has been, as in western Europe, to maintain rapid growth with financial stability. Very high rates of economic growth have been sustained for a number of years now, but the achievement of the latter aim became something of a problem early in 1960 as a result of mounting demand pressure in the investment sector. Deflationary credit measures were therefore adopted earlier this year and have caused bank advances for working capital to fall since May; but their effect on fixed investment was limited until September when the rate of increase was considerably reduced.

5. INDUSTRIAL PRODUCTION IN EASTERN EUROPE AND THE SOVIET UNION

In the first half of this year the expansion of industrial production in the eastern European countries and in the Soviet Union, generally exceeded the rates foreseen in the 1960 plans. Albania is one exception; but even there the rise planned for the first half-year was

The continuation of the boom without excessive inflation is due to the high elasticity of output made possible by past and currently large additions to capacity. Industrial output could thus increase by as much as 16 per cent in the first nine months of 1960 above the level of the corresponding period of 1959. However, prices were forced up in some sectors. This is true, in particular, of the prices of construction materials, demand for which exceeds available resources, and of the prices for some high-quality foods, since the structure of output could not be changed quickly in response to shifts in demand caused by rising incomes. The removal of subsidies to agriculture for the purchase of fuels and seeds, their reduction for the purchase of machinery and pedigree livestock and finally the raising of rents and electricity tariffs were other factors contributing to the increase of prices.⁵³

Since buoyant domestic demand was combined with rapidly rising output and large stocks, exports continued to grow by some 18 per cent in the first nine months of 1960 above the corresponding level of 1959. The composition of exports, particularly that of exports of foodstuffs, continued to shift in the direction of more highly processed products, and the terms of trade improved; an export surplus of wheat was achieved for the first time in the postwar period. Imports increased at almost the same pace, mainly owing to the very substantial rise in purchases of machinery and equipment and some raw materials, but in view of the considerable increase in foreign credits from their 1959 level the problem of financing the trade deficit was eased.

Efforts made to extend the area in which modern agricultural techniques are applied have helped to counteract the effects of adverse weather conditions on agricultural output. Total wheat output is some 10 per cent less than last year's bumper harvest, and maize production is also about 10 per cent lower. The fruit crop will also be smaller than last year. Sugar output, on the other hand, will be larger since an increase in sugar content will more than offset the decline in output of sugar-beet. Livestock numbers and livestock output will be much higher than last year.

⁵³ During the first eight months of 1960 the overall wholesale price index of industrial products went up by 1.4 per cent, that of capital goods remained stable, but that of construction materials and timber increased by 9.5 per cent. Agricultural prices rose by a similar proportion and retail prices by some 6 per cent.

very nearly achieved. In eastern Germany output has probably been somewhat below the planned level in the first three quarters, to judge from the indications so far given of the plan targets. All the plans, except that of Rumania, had predicted a rise in gross indus-

TABLE 8

Gross industrial output and employment in eastern Europe and the Soviet Union

Percentage increase over same period of previous year

	1959 Year	Plan for 1960		Actual 1960		
		Year	First half	First quarter	Second quarter	Third quarter
Albania	Total output	20	11	9	— 9 —	..
Bulgaria	Total output	20 ^a	15	..	18½	13
	Employment	18½	9	..	16	11
	Output per worker . . .	1	6	..	2	2 ^c
Czechoslovakia . .	Total output	11	10	10	13	11
	Employment	3½	3	..	4	4
	Output per worker . . .	7	7	..	9	6
Hungary	Total output	11	8	10½	18	14
	Employment	6	4	..	7½	7
	Output per worker . . .	5	4	..	10	7
Poland	Total output	9	8	..	11	9
	Employment	1½	1	..	-1	-1
	Output per worker . . .	7	7	..	12	10
Rumania	Total output	11	14	..	19	17
	Employment	4	3 ^e	..	7	4
	Output per worker . . .	7	11	..	11	11
Eastern Germany .	Total output	12	9 ^f	..	12	10
	Employment	2	..	..	1 ^e	1 ^e
	Output per worker . . .	10	..	..	10½	9
Soviet Union . . .	Total output	11	8	..	11	> 10
	Employment	3	2	..	4	ca. 3½
	Output per worker . . .	7	6	..	7	6½
					First half year	First nine months

Sources : Statistical yearbooks and manuals; quarterly and monthly statistical bulletins; plans and plan fulfilment reports; ECE, *Statistical Indicators of Short Term Economic Changes in ECE Countries*.

NOTE.—Data cover only state industry in Hungary, and socialist industry in Poland and Rumania. In Bulgaria the data for 1960 cover only planned industry—about 90 per cent of the total. In the Soviet Union, industrial processing in collective farms is excluded. Employment data for all countries refer to workers only and exclude office staff.

^a Changes in enterprise organization have affected, and probably somewhat inflated, this figure (see *Economic Survey of Europe in 1959*, Chapter II, p. 2).

^b Related to the average of the year 1959.

^c Derived from reported growth of total output and of employment.

^d July-August.

^e Derived from reported growth of total output and of labour productivity.

^f Estimates based on indications in the quarterly plan fulfilment report.

trial output in 1960 slower than had been achieved between 1958 and 1959 (though the expected deceleration was hardly significant in either Czechoslovakia or Poland). In fact, the annual rates of expansion so far recorded—in the range of 14-18 per cent in Bulgaria, Hungary and Rumania and 9-12 per cent elsewhere—represent an acceleration, as compared with the average rate of growth in 1959, in Hungary, Rumania and Poland, very little change in Czechoslovakia and the Soviet Union and a slowing down only in Albania, Bulgaria and eastern Germany. However, as can be seen from the data in Table 8, there are indications of some slackening of the pace of expansion in the

course of the first eight or nine months of this year, at least in Bulgaria, eastern Germany and Hungary.⁵⁵

Employment and Labour Productivity

The over-plan increment of industrial output achieved in the Soviet Union in the first nine months of 1960 was due to a 4 per cent rise in the labour force instead of the 2 per cent increase which had been planned.

⁵⁵ Little significance should be attached to differences between rates of growth in the first and second quarters alone, in view of *inter alia* the effects of varying numbers of working days in the same quarter of 1959 and of 1960.

TABLE 9

Indicators of industrial activity by main products or branches in eastern Europe and the Soviet Union

Percentage increase over same period of previous year

	1959 Actual	1960 Plan	1960 Actual		1959 Actual	1960 Plan	1960 Actual						
			First six months	First nine months			First six months	First nine months					
Bulgaria													
Coal	21	13	13	12	Cotton fabrics	4	4	11 6 ^b					
Crude petroleum	-14	-10	4	4	Woollen fabrics	-3	11	19 15					
Electric power	28	19	22	21	Leather footwear	11	14	26 24					
Pig iron	39	57	3	10	Food processing (branch)	8	4	11 10 ^b					
Crude steel	9	31	6	8									
Rolled products	20	47	18	17	Poland								
Engineering and metal-using (branch)	42	21	32	27	Coal	6	4	5 5					
Chemicals and rubber (branch)	45	34	26	23	Crude petroleum	—	—	14 13					
Cotton fabrics	23	..	9	6	Electric power	10	9	9 10					
Woollen fabrics	31	..	—	..	Pig iron	13	4	3 ..					
Leather footwear	20	^a	44	..	Crude steel	9	5	7 8.5					
Food processing (branch)	8	15	4	6	Rolled products	10	6	8 } 8.5					
Czechoslovakia													
Coal	-3	6	6	6.5	Heavy industries, including engi- neering (branch)	14.5	..	14.5 15					
Electric power	11.5	11	12	12	Chemicals (branch)	18	14	20 19.5					
Pig iron	12.5	11	11	11	Cotton fabrics	7	1	4 ..					
Crude steel	11	11	10.5	11	Woollen fabrics	3	2	— -1					
Rolled products	7	14	14.5	13	Leather footwear	8.5	6.5	9 3					
Engineering (branch)	17	14	17	..	Food processing (branch)	3	..	5 9.5					
Chemicals (branch)	12	12	13.5	..									
Cotton fabrics	5	—	5	5 ^b	Rumania								
Woollen fabrics	6.5	—	2	1.5 ^b	Coal	8	..	2.5 ..					
Leather footwear	13.5	10	16	15 ^b	Crude petroleum	1	..	0.5 ..					
Food processing (branch)	4	5	5	..	Natural gas ^c	12	..	14 ..					
Eastern Germany													
Coal (brown)	—	..	3	4 ^b	Electric power	10	14	12 ..					
Electric power	7	..	9	8.5 ^b	Pig iron	15	12	21 ..					
Pig iron	7	..	4	4	Crude steel	52	22	35 ..					
Crude steel	5.5	..	3	3	Rolled products	30	51	61 ..					
Rolled products	10	..	5	3	Engineering and metalworking (branch)	17	17	21 ..					
Metalworking industries (branch)	19	..	13.5	12 ^b	Chemicals (branch)	22	22	9 ..					
Chemicals (branch)	11	..	10	8	Cotton fabrics	5	..	12.5 ..					
Cotton fabrics	11	..	5	5 ^b	Woollen fabrics	2	..	9 ..					
Woollen fabrics	25*	..	14*	14* ^o	Food processing (branch)	6	..	21 ..					
Leather footwear	16	..	13	11									
Food processing (branch)	5	..	8	10 ^b	Soviet Union								
Hungary													
Coal	5	3	5	5	Coal	2	2	2 2					
Crude petroleum	25	12	29	20	Crude petroleum	14	11	15 14					
Electric power	9	8	11	9	Electric power	12	11	11 10					
Pig iron	2	..	17	18 ^b	Pig iron	9	9	9 9					
Crude steel	8	..	10	9	Crude steel	9	8	9 9					
Rolled products	5	5	3	7	Rolled products	9	7	9 9					
Engineering (branch)	17	14	21	21	Engineering and metalworking (branch)	15	12	17 16					
Chemicals (branch)	19	7	21	19	Chemicals and rubber (branch)	10	10	11 11					

Sources : Statistical yearbooks and bulletins; plans and plan fulfilment reports; *Rabotnicheskoe Delo*, 23 December 1959.

NOTE. — For additional data on the industrial targets of the 1960 plans, see the *Economic Survey of Europe in 1959*, Chapter II, Tables 3-5, and Chapter III, Table 15; and the *Economic Bulletin for Europe*, Vol. 12, No. 1, Table 3.

^a An 8 per cent rise was planned in the output of the leather and footwear branch.

^b First eight months.

^c Methane gas and natural gas from oilfields.

Output per worker has risen at the planned rate of 6 per cent; and this represents an even greater rise in labour productivity in terms of output per man-hour, since the planned reduction in the working week has been progressively implemented in the course of the year. By the end of the third quarter, hours had been reduced for about 40 million workers or around two-thirds of the total.

Campaigns to raise labour productivity, increase managerial and labour efficiency and encourage over-fulfilment of plans were given renewed impetus late in 1959 or at the beginning of this year in Bulgaria, eastern Germany, Hungary, Poland and the Soviet Union.⁵⁶ However, remarkably large increases in industrial employment so far this year have been reported in Bulgaria, more than offsetting the effects on output of a rise in labour productivity at well below the rate planned for the whole year.⁵⁷ In all the other countries of the region for which data are available output per worker has increased sharply, and at least at the planned rates; and in both Hungary and Rumania employment also has been above the planned levels.⁵⁸

In Poland, the tightening of work norms and pressure on directors of enterprises to eliminate redundant labour were important factors holding industrial employment slightly below the corresponding 1959 level during the first eight months of this year. Total employment in the socialist sector also fell slightly; but the number of those registered as seeking work on 1 August was only 28,000 (of which 22,600 women) against 118,200 reported vacancies. Labour shortages were reported in building, transport, mining, agriculture and the food industries, together with a fairly general scarcity of skilled workers.

Whereas the desirability, in the short run at least, of higher labour productivity in sectors of labour scarcity or under-utilized capacity may be obvious, in conditions of generally abundant labour in relation to avail-

⁵⁶ On the Polish and Hungarian campaigns, see the *Bulletin*, Vol. 12, No. 1, pp. 6-7. In eastern Germany 86 per cent of productive workers in industry, agriculture and transport were participating in the "socialist labour competition" movement by June 1960 (*Neues Deutschland*, 31 July 1960).

⁵⁷ Over the first nine months of the year, total employment in industry, construction, transport and trade rose by 11½ per cent. Increases in productivity — sometimes very considerable — were reported in some branches of industry; but in others there seems to have been some inflation of the labour forces and/or scarcities of materials, resulting in reductions in output per worker — by 9 per cent in food processing, 4½ per cent in the timber and wood-working branches and 2½ per cent in the building materials industry.

⁵⁸ No employment or productivity targets for 1960 have been published in eastern Germany. The 1959-1965 Plan foresees an average annual rise of only 0.3 per cent in industrial employment, but of 9.2 per cent in output per worker in state industry (see the *Economic Survey of Europe in 1959*, Chapter III, pp. 4 and 12). Developments so far this year seem to have been consistent with such a trend.

able productive capacity or raw materials the concomitant of rising labour productivity in some branches of activity may be a persistence of under-employment elsewhere, a slowing-down of the movement of labour from agriculture or other branches of relatively low productivity to those where productivity is higher, a decrease in employment opportunities for women or juveniles, or visible unemployment. Such is the situation in Poland and in some other countries also. Special efforts to raise production or imports (or, at need, to reduce exports) of "bottleneck" materials, or even reductions in working hours, may be a preferable alternative in these conditions to either the creation of significant unemployment or the acceptance of deliberately delayed technical progress or over-staffing and under-employment.⁵⁹

The Patterns of Industrial Growth

The divergent patterns of industrial expansion noted in the first quarter of this year⁶⁰ have continued into the later months. A common feature of experience in all the countries for which data are given in Table 9 is a rapid growth of engineering output at rates well above those for all industry. This has been supported by increases in steel output at or above the planned rates in most countries, though the expansion of production of pig iron and crude steel has slowed down strikingly in Bulgaria — following the absorption of virtually all capacity reserves last year — and, less noticeably, in eastern Germany and Poland. Last year's extraordinarily rapid rise in output of building materials has not been equalled in the first half of 1960 in most countries (see Table 10), and lagging output of some materials seems frequently to be hampering the further growth of construction activity. Chemicals production — a priority branch in all the new long-term plans — is rising faster than industrial output in general in most countries (but not in eastern Germany or Rumania), and the rate of expansion has accelerated this year in Poland.

Among consumers' goods, patterns of production this year tend to reflect the demand/supply balance for particular products. Output of durable goods is generally rising particularly rapidly, though with some exceptions (for example, below-plan output of radios in Poland in the first half of 1960 is explained by the temporary saturation of the market at present prices). Output of leather footwear is, nearly everywhere, rising very fast this year, but textiles production is expanding relatively slowly except in Hungary and Rumania.

⁵⁹ The pros and cons of efforts to raise productivity in varying conditions of relative factor scarcity are discussed by M. Kalecki, "Uwagi na temat wydajności pracy", *Zycie Gospodarcze*, No. 31, 1960.

⁶⁰ See the *Bulletin*, Vol. 12, No. 1, pp. 2-8.

TABLE 10. — Output, employment and supply of materials in the building and construction industries
in eastern Europe and the Soviet Union

Percentage increase over same period of previous year

	1959 year	1958	1959	1960	1960 Plan
		First half			
Bulgaria					
Output of building and construction					
Total	24	25	20	36	32.2 ^a
Per worker	5½	6	-1½	-1	4.9
Employment ^b	18	17	21	37	26.0 ^c
Production of materials (branch)	46	16	23	14	35
of which : Cement	53	4	54	9	21
Bricks	32	16	48	8	29
Czechoslovakia					
Output of building and construction					
Total	15	5	17	13	11
Per worker	9	7	13	8	9
Employment	5	-1	4	4	2
Production of materials (branch)	15	..	..	..	13
of which : Cement	15	4	20	8½	56
Bricks	5	8	20	5	9
Prefabricated components	28	36	24	40	23
Eastern Germany					
Output of building and construction					
Total	23	1	26	11	..
Per worker	14 ^d	3	17	..	..
Employment	8	-2	8	..	..
Production of materials (branch)	14	9	17	11	..
of which : Cement	18	3	8	28	..
Bricks	7	-1	9	2	..
Prefabricated components	42	16	38	32	..
Hungary					
Output of building and construction					
Total ^e	20 ^f	..	24	15	8.5
Per worker	5.5	6	8	8 ^d	7.8
Employment	1.4	-6	15	7	0.5-1.4
Production of materials (branch)	18	20	17	15	8
of which : Cement	10	37	11	10	6
Bricks	17	-5	30½	10	..
Ferro-concrete roof-beams	43	34	19	32	..
Poland					
Output of building and construction					
Total	13	3½	25	..	5
Per worker	8	7	17	7½ ^d	7
Employment	5	-3	7	-7	-1.8
Production of materials (branch)	14	6	15	10	..
of which : Cement	5	14	7	16½	22
Bricks	18	-½	23	4	10
Rumania					
Output of building and construction					
Total	7	-2	4	22	..
Per worker	2 ^d	8 ^d	2 ^d	11 ^d	..
Employment	5	-9	2	10	..
Production of materials ^g (branch)	10	1	10	3	..
of which : Cement	11	11	13	10	..
Bricks	12	..	..	..	..
Soviet Union					
Output of building and construction					
Total	16	13	15	15	..
Per worker	9	10	9	9	7
Employment	6½ ^e	3	5½	5½ ^e	..
Production of materials (branch)	22	..	25	18	..
of which : Cement	16	16	17	17	17
Bricks ^h	13	17	17	9	..
Prefabricated ferro-concrete components	30	42	35	24	13

Sources : Statistical yearbooks and bulletins; plans and plan fulfilment reports; *Népszabadság*, 21 and 29 January 1960; *Rabotnicheskoe Delo*, 22 December 1959.

NOTE. — Output of building and construction covers building and assembly work in state enterprises, except in Rumania where socialist enterprises are covered.

^a Centrally planned output only.

^b In construction.

^c Derived from reported growth of total output and of labour productivity.

^d Derived from reported growth of total output and of employment.

^e In state enterprises.

^f Derived from 108 per cent rise in value of output and price index of 173.1.

^g Extraction of building materials is included.

^h Excluding production in collective farms.

Food processing in most countries reflects difficulties in raising agricultural output.

Reports of particular scarcities or, in some countries, of depletion of stocks or deterioration of quality in some branches of output, were already becoming fairly widespread early in the year⁶¹ and have continued. However, in Bulgaria, Czechoslovakia and Hungary — and to a lesser extent in Poland — rapidly rising imports have given valuable support to the growth of domestic output. Hungarian imports of fuels and raw materials alone were 22 per cent greater in value in the first half of this year than in the same months of 1959, and similar imports into Poland were 10 per cent higher and rising during these six months.

Industrial Output in Eastern Europe

In Czechoslovakia, the steady expansion of gross industrial output during the first three quarters of 1960 — to a level nearly 12 per cent above that in the same months of 1959 — has been led by the engineering, chemicals and metallurgical industries, while coal production rose satisfactorily and electricity generation kept pace comfortably with growing industrial demand (see Table 9). Although the degree of plan fulfilment has been remarkably even over all the branches for which reports have been published, complaints have been recorded of unsatisfactory product-mix and irregular production in the engineering, chemicals and metallurgical industries, and a campaign was launched early in the year to raise the number of shifts worked. Only brick production seems, however, to have lagged to such an extent as significantly to hamper the activity of the user-branches, but output of prefabricated building components has risen extraordinarily fast (see Table 10). The underfulfilment of production plans for radios and television sets seems to reflect market conditions.

Reports on plan fulfilment in eastern Germany — still unrelated to any annual or quarterly production targets — indicate a less smooth development than in Czechoslovakia and a slackening of the tempo of industrial growth. The 8.4 per cent rise in gross output recorded between the first nine months of 1959 and the same months of 1960 contrasts with a 13.6 per cent rise in the preceding comparable period. Among the branches which are reported not to have reached their output targets are the metal-working and building industries. Electrical engineering continued to be the most rapidly expanding branch; but only average rates of growth were recorded by the other metal-using branches and the chemicals industry, and output in the light industrial and food-processing branches rose at rates well below the average. Shortcomings in management and supply bottlenecks affecting a num-

ber of key materials are reported to have hampered progress generally, and complaints of enterprises sacrificing quality to achievement of quantitative output goals, of inefficient use of labour and of waste of materials have again been voiced by the planning authorities.⁶² On the other hand considerable achievements have been noted in the starting of output of new types of equipment and other lines of production.

In 1959 the ratio of the increment (over 1958) of electric power production to that of gross industrial output in eastern Germany was only 55 per cent — the lowest in Europe. But new capacity installed since the middle of that year has contributed to an 8½ per cent rise in electricity generated in the first seven months of 1960, raising the above-mentioned ratio to 95 per cent. However, despite the priority given to investment in electric power development, and the expectation that 670 MW of new capacity will be installed this year, the Deputy Chairman of the State Planning Commission has already announced that the output plan for 1960 will not be fulfilled.

He also reported that the east German engineering industry had failed to achieve more than 50 per cent of the tasks specified in its half-yearly plan, despite a 13 per cent increase in its overall output since the same months of 1959.⁶³ Shortages of imported draw plate, high-grade sheet steel and seamless tubes are reported to have caused interruptions of production in a number of enterprises, even though the metallurgical industry over-fulfilled its output plan by raising production nearly 6 per cent above the first half 1959 level. Mechanization and automation of production in this branch are reported to have been lagging behind plan and the rate of utilization of existing equipment has been unsatisfactory — the average utilization of machine tools, for example, being only 1.4 shifts a day, whereas it is considered that automatic machines should operate for at least two shifts daily.

In the east German chemicals industry, the most important development in the first half of this year has been the completion of the first stage of the special programme launched in 1958, with the putting into service of six new plants at the Buna Chemical Works: one chlorine electrolysis plant, a vinyl chloride plant, a polyvinyl chloride (PVC) plant, a polyacrylonitrile (PAN) plant, a water-processing plant, and a new power distribution network. The chlorine electrolysis plant will produce 6,500 tons of chlorine and 7,500 tons of caustic soda in the course of the current year, both being important requirements of the plastics and

⁶¹ *Ibid.*

⁶² The need for thrift in the use of materials — particularly steel, non-ferrous metals, timber and textile materials was stressed in an open letter from the Central Committee of the German Socialist Unity Party to east German workers in May (*Neues Deutschland*, 26 May 1960).

⁶³ *Neues Deutschland*, 26 July 1960.

textiles industries. The new PVC plant has an annual capacity of 10,000 tons.⁶⁴

The new plants are part of a programme aimed at accelerating the expansion of the production of plastics, supported by a Soviet credit of about DM 200 million made available in the form of special material deliveries. Further installations are foreseen, which would make possible an additional annual production of 40,000 tons of PVC by 1962. The Buna Chemical Works are already the largest producer of PVC in Europe, and by 1965 the plant's yearly production is to reach 130,000 tons.

Early in May the first building stage of a sulphuric acid plant was completed at Coswig.⁶⁵ The sulphuric acid is to be produced from gypsum deposits and the plant is to be the largest of its kind in the world. Two furnaces were put into service on 1 June with an annual production capacity of 100,000 tons SO₃, and the same quantity of Portland cement. As from 1961 these capacities are to be doubled.

Difficulties have been reported in the deliveries of machinery and other equipment for the chemicals industry, and these may be ascribed, at least in part, to the heavy export programme of the engineering industry. For instance, eastern Germany is to provide the Soviet Union alone with equipment and installations for its chemicals industry worth 700 million roubles, in accordance with the terms of the long-term (1961-1965) trade agreement between the two countries.

Gross industrial output has accelerated in Hungary this year. It was 5 per cent higher than planned in the first half of 1960, and the excess over the planned rate was even higher in the second quarter than in the first. Available data for the third quarter suggest some later slackening of the rate of expansion, though it remains very rapid (see Table 8).

Variations in rates of growth in different sectors in Hungary — and in performance in relation to the plan — became more pronounced in the second quarter, and increasing strain on raw material supplies was reported despite the support given by the rapidly rising imports mentioned above.⁶⁶ Some types of steel and

⁶⁴ *Neues Deutschland*, 1 July 1960; also *Die Wirtschaft*, 1960, No. 27, 7 July 1960, p. 1. The plan fulfilment report for the first three quarters of the year reported the commissioning of further important capacities for sulphuric acid and plastics production. At the Freiberg zinc plant, an additional annual capacity of 34,000 tons of sulphuric acid has been introduced since the beginning of the year. (*Neues Deutschland*, 4 November 1960.)

⁶⁵ *Neues Deutschland*, 9 May 1960.

⁶⁶ Some running down of stocks, or exceptional rise of imports, seems to have been envisaged when the 1960 plan was formulated (cf. *Országgyűlési Értesítő*, p. 417). Official comment on the plan also stressed, at first, that over-fulfilment of production plans could be regarded as commendable only if raw material supplies and market outlets were adequate. The production and labour competition drive, launched somewhat later, called for general

basic chemicals were reported to be particularly subject to interruptions of supplies. Moreover, complaints of poor quality output in a number of branches have persisted, or even increased.⁶⁷

In the basic sectors in Hungary outputs of coal, electric power, rolled steel in general, and aluminium have exceeded the planned levels; but basic chemicals production lagged behind the plan. Building materials output also exceeded planned levels though — as noted above — not sufficiently to ensure a completely smooth flow of supplies to construction enterprises, which exceeded planned rates of activity to an even greater extent (see Table 10). In general, the speeding up of expansion has been more pronounced in the processing branches than in the basic industries, though there are many exceptional cases.⁶⁸

Better utilization of plant contributed to the rapid expansion in several branches of Hungarian industry; and second shifts were introduced in some shoe and furniture factories.⁶⁹ New capacity installed in 1959 or early this year was important in the electric power, steel, cement and paper industries; and re-equipment with more efficient plant contributed to the growth of labour productivity in engineering and the textiles industries. Major increases in employment have occurred in the chemicals and wood-working branches — by 70 per cent and 100 per cent respectively.

Although the Hungarian balance of foreign trade has deteriorated this year, as a result of the very rapid growth of imports, export production has developed rather well. In the machine tool industry it was 13 per cent above the planned level in the first half-year, and the general machinery and electrical equipment branches reported similar success. Production of telecommunications equipment for export rose 22 per cent above the levels of the first half of 1959 (a 20 per cent rise was planned) and a considerable share of the over-plan output of the light industries was exported.

In Poland, the remarkable rise of labour productivity already mentioned has been the outstanding feature of industrial development so far this year. Output rose at above the average rate for all industry in the metallurgical, engineering and chemicals branches, and improved productivity raised coal output above the planned level in the first half-year. Some shortages

efforts to exceed plan targets though it again stressed the danger of strain on raw material supplies (*Népszabadság*, 19 and 20 December 1959, 1 and 24 January 1960).

⁶⁷ For example, the proportion of engineering products delivered for export which were rejected, as of sub-standard quality, by the foreign trade corporations rose in the first quarter of the year (*Figyelő*, 10 May 1960), and the familiar complaints of poor quality of some shoes, textiles, clothing, furniture etc. persist.

⁶⁸ Plan fulfilment report, and *Figyelő*, 19 July 1960.

⁶⁹ *Népszabadság*, 29 April 1960.

of electric power in the early months of the year were experienced — and are expected to be repeated this winter — despite the 10 per cent increase, from the first half of 1959 to the same months of 1960, in electricity generated. As elsewhere, there have been some shortages of building materials.

In the consumer-goods branches in Poland the growth of production of some products (such as woollen textiles and radios) has been checked by the temporary saturation of the market. In the food processing branch supplies from the farms of some products — such as meat and milk — have been poor, as in Hungary; but total output has risen fairly fast, partly as a result of a rapid growth of oil processing and of margarine production. However, consumer-goods output in total rose by about 7 per cent above the level in the first half of 1959; and considerably exceeded the rise of consumers' disposable incomes. Exports of textiles and some other consumers' goods were increased, but domestic stocks of a number of products nevertheless rose.

Rising imports, at above the planned rate, have supported the Polish expansion; and strains on raw material and other supplies seem to be rather less evident in that country than elsewhere in the region.

Over-fulfilment of output plans by small margins in nearly all branches of industry seems to have been the rule in Bulgaria, where the overall plan for the first nine months of 1960 was just exceeded (by less than 1 per cent), locally-administered enterprises being particularly successful while output in state enterprises was less than planned. Increases in employment ranging from 10 per cent to 18 per cent contributed to the rapid growth of output in the non-ferrous metals, engineering and metal-using, chemicals, construction materials and wood-working branches in the first half-year — representing more intensive use of existing capacity as well as the impact of new investment. Rapidly growing production of agricultural machinery and consumers' durable goods is stated to have contributed to the rise of nearly one-third, over the corresponding 1959 level, in the output of the metal-using industries reported in the first half of this year; and rising output of fertilizers — permitting co-operative farms to apply one-third more than in the same months of 1959 — was an important element in the growth of chemicals production.

Bulgaria, like Hungary, is a country where home and export demand for textiles supported a continuing, fairly rapid, growth of output, at least of cotton goods. Special conferences to discuss the problems of poor quality and assortment of production, which is producing rising stocks of unsaleable goods were, however, held in June and July of this year. Among other consumer-goods branches, food-processing increased only slowly, reflecting the trend of sales off farms.

Industrial expansion in Rumania in the first half of 1960 — at a rate well above that planned for the year and 4 per cent above the half-yearly plan — was concentrated on electricity generation, metallurgy, engineering and food-processing while the growth of output of chemicals has been well below the rate planned for the whole year (see Table 9).

In line with the fuel policy foreseen in the Rumanian 1960-1965 Plan, the output of natural gas — which is also being increasingly utilized as a material for the chemicals industry — is rising much faster than that of coal and oil. However, while crude oil output is hardly increasing at all, further improvements in refining will result from the commissioning in June of a catalytic cracking plant at the Onesti refinery and of capacity for an annual output of 100,000 tons of ethyl mercaptan at the Brazi refinery.

In the metallurgical sector, a large part of the rapid increases in Rumanian output of pig-iron, steel and rolled products has been obtained — as planned — through better capacity-utilization; but a further improvement will be partly dependent on the quality of the steel-making materials available. The special efforts devoted to maintaining, and if possible raising, the share of home-produced materials in total inputs into the steel industry are to be supplemented by an increasing attention to quality; and the director of the Teliuc mines — the most important domestic source of iron ore — has undertaken to raise the iron content of the ores delivered to 50 per cent (from the present level of 30-33 per cent).⁷⁰

The rise of some 20 per cent in food-processing in Rumania is an exception to the general experience of the countries of the area this year, and is due especially to considerable increases in production of meat, sugar and vegetable-oil, reflecting the good feed grain, and record sugar-beet and sunflower-seed, harvests of 1959.

The emphasis on technological advance and increased attention to costs, already apparent in recent developments of investment plans and other government policies in the Soviet Union and elsewhere in eastern Europe, has recently been matched in Rumania by the setting up of a "Committee for New Technique" under the Council of Ministers. This Committee is to direct, co-ordinate and control all activities relating to the introduction of new techniques. It is to determine the types of new machinery and equipment to be produced, the obsolete models output of which is to be discontinued, and the types of equipment to be imported and to be produced for export.

The decree setting up the Committee⁷¹ stipulates that new production of important items of equipment should be started only after the completion of technical

⁷⁰ *Scinteia*, 17 July 1960.

⁷¹ Published in *Scinteia*, 3 July 1960.

economic studies covering *inter alia* analyses of five-year prospects for domestic needs and export possibilities, the technical characteristics and output potential of similar equipment in industrially advanced countries, the implied raw-material needs and probable effects on current domestic production costs. Similar studies are to precede any decision to import new types of equipment.

To stimulate enterprise managements and staffs to technical innovation a "premia fund for the introduction of new techniques" is to be established. Its size will be specified in the annual plan for each industrial Ministry (or other central administrative body) and may amount to 1 per cent of the wage fund in the engineering industry and 0.5 per cent in other branches.

Industrial Output in the Soviet Union

In the Soviet Union, building materials and engineering continued to be the most rapidly expanding industrial branches during the first three quarters of this year, showing increments of output of 18 and 16 per cent respectively over the level in the first nine months of 1959. The growth of output of building materials has nevertheless slowed down since last year, partly because gross production statistics are less affected than previously by a rising share of pre-fabricated components, which now provide a high and stable share of gross output.⁷² Engineering output has risen faster from 1959 to 1960 than in any of the preceding five years, and much faster than planned; but this increase has not been sufficient fully to meet the demands of the investment plan and growing, though still marginal, exports.

Within the engineering and metal-working branch, the pattern of output reflects the priorities of the 1959-1965 Plan.⁷³ Output of chemical equipment, for example, has risen by 38 per cent between the first nine months of 1959 and the same months of 1960 and production of diesel locomotives by 35 per cent (both rates far above the average for the branch); but the corresponding rates of growth have been only 4 per cent for metal-working machine tools and (in the first six months) around or below the 17 per cent average for turbines and generators and metallurgical equipment.

The other priority branch under the Seven-year Plan — chemicals — has shown a rate of growth of output this year little above the average, and the massive investments of the last 2½ years have still to produce their effects. Output of artificial and

synthetic fibres rose by 13 per cent from the first half of 1959 to the same period of 1960, lagging somewhat behind the 17 per cent expansion planned for this year. Production of plastics rose by 11 per cent but, within the total, output of polyethylene, polystyrene, moulding-powder plastics and aminoplastics registered percentage increases of 56, 23, 20 and 20, respectively.

Electricity generation has risen in step with the overall growth of industrial output; and the shift of primary fuel production towards the more efficient and cheaper sources of energy — petroleum and natural gas — is proceeding somewhat faster than planned in the case of petroleum, though natural gas production rose by only 29 per cent between the first half-years of 1959 and 1960 compared with a planned increase between the two full years of 42 per cent.

Among consumers' goods, an output of 1½ million television sets, 700,000 washing machines and 386,000 refrigerators in the first nine months of this year represented increases of 33 per cent, 36 per cent and 21 per cent respectively over the corresponding 1959 levels. Production of watches, on the other hand, stabilized — at 19.3 million — and an output of 3.1 million radios represented only a 4 per cent rise over the January-September 1959 level. In general, the pattern of consumer-goods output seems to represent an improving adaptation to consumers' demand; but this is probably not so in the case of the decelerating rise of furniture production, even though a 19 per cent increment was reported. The slower growth of food-processing this year than in 1959 reflects preceding rates of procurement from the farms, and especially the poorer harvest in 1959 than in 1958.

Industrial Planning and Management in the Soviet Union

Progress under the Seven-year Plan was reviewed at the July 1960 Plenary Session of the Central Committee of the Communist Party, which was able to record striking over-fulfilments of production plans. Both in 1959 and in the first half of 1960 overall output was well above the planned levels; steel production during the 18 months had been 3.4 million tons above plan, electric power generation exceeded the target by 5 billion KWh, petroleum output by over 3 million tons, iron ore by over 4 million tons, textiles production by 601 million metres, production of footwear by 28 million pairs. The report of these, and other, successes was followed, however, by a discussion of a long list of shortcomings in the functioning of the Soviet economy.⁷⁴ The emphasis in the Seven-year Plan on technological progress, and on raising productivity through the more efficient use both of labour

⁷² On the inflation introduced into the index number of building-materials output by the rapid rise of this element in the past, see the *Bulletin*, Vol. 11, No. 3, p. 28, footnote 11, and p. 28, Note to Table 13.

⁷³ Reviewed in the SURVEY for 1959, Chapters III and IV.

⁷⁴ Reported in *Pravda*, 14-17 July 1960.

and of investment resources, is reflected in many of the criticisms, as is concern with the quality and assortment of output, with planning techniques and with the working of the *sovmarkhozy*. Individual shortcomings in these fields have been discussed or reported in Soviet literature, and in authoritative statements and discussions, for some time past, and have been noted in earlier SURVEYS and *Bulletins*, but the latest review by the Central Committee, and that undertaken at a similar session last year,⁷⁵ have been unusually comprehensive.

The Plenary Session noted that, since plans for the introduction of new machines and new processes are frequently drawn up after the drafting of production plans, the output targets often fail to reflect the possibilities offered by technological advance. Moreover, plans for introducing new equipment are imperfectly matched by supplies of the necessary material and technical resources, and the newly designed equipment itself frequently does not conform to the most advanced technical standards. Technical progress in rail transport was reported to be lagging behind plan: reorganization of a number of main lines is being carried out in a piecemeal fashion and there are delays in the introduction of automated traffic control systems and in modernization of rolling stock.

In the sphere of enterprise management and efficiency the Central Committee "regards it as intolerable" that a considerable number of enterprises fail to carry out planned tasks of cost reduction and accumulation. Costs of a number of products vary considerably from one enterprise to another, and at a number of works, factories and mines expenditures of labour, raw materials, fuel and electricity remain unduly high, as do losses incurred through production of poor quality goods. Some leaders of enterprises and of *sovmarkhozy* pursue quantitative expansion of production at the expense of poor quality and assortment of products and of excessive use of materials — so that, for example, machines and tools are frequently unduly heavy and cumbersome. In many enterprises "there is no rational distribution of workers, engineers and technicians; there are superfluous, unjustified numbers of ancillary and auxiliary personnel which are not needed for production; there is considerable idling and an irregular rhythm of output". Many enterprises when designing, and launching production of, new equipment fail to carry out an analysis of its economic effectiveness in relation to that of the old equipment so that the introduction of new equipment may "produce no economic effect".

Planners and economists are reproached for failing adequately to revise norms of material and labour use (i.e. cost plans), for insufficient attention to such matters as measurement of the effectiveness of invest-

ment, the economic utilization of fixed and working capital, the analysis of inter-branch and inter-regional production flows, the improvement of plan indicators and — more generally — for insufficient concern with improvements in the methodology of planning. Many wholesale prices are stated to be overdue for revision, since technological changes have distorted the relation between these prices and production costs.

The Plenary Session noted considerable successes in expanding production of consumers' goods but also criticized some Party, administrative and other authorities for insufficient attention to the expansion of capacity in the light and food industries and in furniture making. They noted that consumer services — such as dry-cleaning, shoe-repairing, repair of refrigerators and television sets, etc. — were frequently unobtainable.

Such sweeping criticism, from an authoritative source, of the functioning of the Soviet system of industrial planning and organization is somewhat surprising in conjunction with the very considerable over-fulfilment of production plans in the immediate past, which might have been thought to offset to some extent defects in quality and assortment. A possible explanation is that the authorities are not only dissatisfied with the rather substantial shortfalls (noted in section 7 below) on the plans for capacity extensions and for re-equipment and modernisation of existing factories, transport facilities, etc. — as has been clearly stated — but that they also consider that the actual degree of over-fulfilment of output plans has been an inadequate achievement in view of the faster-than-planned rise in the industrial labour force^{75a} and the fact that interruptions of production during re-equipment have probably been less than had been anticipated. Moreover, as mentioned above, this Plenary Session has to a considerable extent reiterated criticisms made last year, when a number of authorities were instructed to seek immediate solutions for the problems then identified. Apparently they have had little success so far; and now, once again the Central Committee has charged various bodies to seek solutions for the problems discussed.

Many of the instructions given on this occasion to the responsible all-Union, Republican and *sovmarkhoz* authorities amount simply to a new stress on already defined obligations — for example, to devise effective measures to accelerate the introduction of new techniques, the automation of production processes and the replacement of obsolete machinery by up-to-date equipment;⁷⁶ to give special attention to improving

^{75a} Due largely — it seems — to the cuts in the armed forces, by 1.2 million, announced at the beginning of the year.

⁷⁶ A separate decision requiring plans for the introduction of new techniques to be drawn up for 1961 (at the enterprise, *sovmarkhoz*, Union-Republican and USSR Gosplan levels) in advance of the establishment of the production plans has met another of the criticisms advanced at the Plenary Session (see above).

the quality of training, and augmenting the numbers, of graduates and skilled workers for employment in the fields of new technology, and particularly in the mechanization and automation of production; to ensure the full use of capacity and equipment, the elimination of bottlenecks, and a rational distribution of workers and technical personnel.

Exposés of some other problems have been followed — in some cases for the second time — by instructions to the appropriate authorities to produce solutions within a specified period. Criticism of the lack of sufficient specialization within and co-operation between *sovmarkhozy* was followed by a request to the USSR State Economic Council, Gosplan and State Committee for Automation and Machine Building to work out, within a year, a plan for the development of specialization and co-operation in the basic branches of industry within the current Seven-year Plan period. Proposals are to be submitted by the appropriate authorities, by 1 January 1961, to improve the organization of material and technical supplies, to liquidate superfluous units in the supply and marketing apparatus, to eliminate duplication in the work of the Union and Republican marketing and supply organizations, to suppress infringements of state discipline and to ensure effective responsibility for implementation of supply and marketing plans. By 1 March 1961, proposals are to be made for a further improvement of the indices of the State Plan designed to improve the economic incentives for enterprises and *sovmarkhozy* to utilize effectively fixed and working capital, to produce the required product-mix, to raise productivity of labour and to lower production costs. By the end of 1960, fundamental improvements are to be devised in the setting of norms for the use of material resources, for fixed and working capital and for stocks of products and materials at every stage of the production and distribution process. A review of wholesale prices of equipment and of means of production is to be carried out in 1961-1962, aimed at making prices reflect production costs with greater accuracy and at ensuring the accumulation of funds required for further industrial development. In addition, the USSR Gosplan and Ministry of Finance are instructed to produce, within three months, proposals for improvements in methods of fixing and reviewing wholesale and retail prices designed to improve material incentives for industrial enterprises, to improve the range of consumer-goods output and to adjust production rapidly to shifts of demand.

More precise measures to encourage the introduction of new technology were taken in the form of a decision of the Central Committee and the Council of Ministers of the USSR of 2 July 1960.

The present functioning of the enterprise fund favours "backward" enterprises (i.e. those which lag behind in the introduction of new techniques) and

penalizes those which strive for modernization of their production processes, mainly because additional expenditures connected with re-equipment are counted as current production costs, thus reducing the amount of profit and the size of the enterprise fund.⁷⁷ To deal with this problem, deductions from above-plan profits to be transferred into the enterprise fund will be increased after 1960 in all branches of industry; and in the machinery and metal-working industries, for example, these deductions will be raised to 10 per cent (from 4 per cent) during the first year of production of new equipment.⁷⁸ Annual transfers to the enterprise fund should not exceed 5½ per cent of the annual wage fund; but in the machinery and metal-working industries this may be raised to as much as 7 per cent, depending upon the share of new technical products in the total volume of production (the 7 per cent maximum is allowed if this share is at least 25 per cent). The enterprise fund is to be spent as follows: not less than 20 per cent on work on new techniques, modernization, etc.; not less than 40 per cent on housing and social amenities; and up to 40 per cent on individual bonuses and awards.

Plant replacement funds may be set up by *sovmarkhozy*, and by All-Union Ministries and departments in charge of enterprises producing machines and equipment, to finance outlays on designing, research and other work on new types of products prior to the commencement of production. Wholesale prices of the newly manufactured products of the machinery and metal-working industries will be artificially inflated for some time, by a margin varying with the economic benefits of the new products (in the form of lower cost, better quality or easing of conditions of work) to the user or consumer.

The above measures, which may be extended to other branches of industry by Gosplan together with other agencies, will become effective from 1 January 1961.

Until now, individual premia for introduction of new techniques were granted only in machine-building. The new decree extends the application of individual awards to other branches of industry, and also to building, transport, communications, and geological research. These premia are to be derived from a central fund created for this purpose, and their size is to be a function of the economic effectiveness of the new techniques.⁷⁹ Enterprise managements are to be deprived of premia for fulfilment of production plans if the plans for introduction of new techniques are not met.

⁷⁷ See also *Economic Survey of Europe in 1959*, Chapter III, p. 15.

⁷⁸ *Planovoe Khozyaistvo*, No. 8, 1960, p. 11.

⁷⁹ The publication of the Academy of Sciences of the USSR, "Typical methods for determination of economic effectiveness of investment and new techniques" is recommended as guidance (*Planovoe Khozyaistvo*, No. 8, 1960, p. 14).

Other measures to encourage technological advance include more generous provision of credit to enterprises. Until 1955, bank credit for modernization and mechanization was restricted to a small number of enterprises, chiefly in the light and food industries, and the duration of the credit could not exceed one year. Since then many restrictions on entitlement to bank credit have been lifted (in 1959 the value of such credits was 4 billion roubles or thirteen times greater than in 1954); and now Gosbank is authorized to approve loans for two or three years.

A tendency towards some recentralization of industrial management, first observable some eighteen months ago, has recently been strengthened by the creation in three Union-Republics of "super-sovnarkhozy" — a step which may not be unrelated to the criticism of the existing "inter-sovnarkhoz" co-operation noted above. A sovnarkhoz for the whole of the Russian Federation was formed in mid-June, one for Kazakhstan in late June, and one for the Ukraine in early July. With Uzbekistan, these were the only Union-Republics which were split into a multiplicity of sovnarkhozy at the time of the 1957 reform (68 in the RSFSR, 11 in the Ukraine, 9 in Kazakhstan and 5 in Uzbekistan)⁸⁰ the 11 other Union Republics

⁸⁰ Three new sovnarkhozy — for the Crimea, Poltava and Cherkassy — were created by a decree of the Presidium of the Ukrainian Supreme Soviet on 17 May (*Pravda Ukrainskaya*, 19 May 1960), making 14 in the Ukraine; as a result of mergers, there are now only 64 in the RSFSR.

had one sovnarkhoz apiece. Co-ordination of the activities of the multiple sovnarkhozy has until now been exercised by the Union-Republican Planning Commissions. These Union-Republican Gosplans were thus, for the first time, allotted operational functions,⁸¹ but the Government has now decided that Gosplans should concentrate on planning. Although the title of the three new bodies is 'sovnarkhoz', they are supervisory agencies above the existing network of local sovnarkhozy and there is no suggestion that the local bodies be superseded.

In Uzbekistan the recentralization has taken the form of abolishing all five local sovnarkhozy in early July, thus putting it on a par with the other, but smaller, Central Asian republics. The one sector which had already been removed from sovnarkhoz to Union-Republican control (the exploitation of natural gas, which is to become of major significance during the Seven-year Plan) is returned to the unified sovnarkhoz.

⁸¹ As 94 per cent of gross industrial output is controlled by the Union-Republics through either sovnarkhozy or local and co-operative organs, these functions are onerous. The RSFSR Gosplan for example ratified half a million orders for iron and steel in a year. However, the USSR Gosplan is said to have interfered with Union-Republican Gosplans in the sphere of supply allocations, on the grounds that it had the duty to plan inter-Republican deliveries (cf. *Pravda Ukrainskaya*, 30 April 1960); and sovnarkhoz and central agencies are said to be interfering with the greatly extended rights of oblast plan commissions (see A. Zenkovich, *Sovet deputatov trudyashchikhsya*, No. 6, 1960, pp. 20-24).

6. FARM ORGANIZATION AND AGRICULTURAL OUTPUT IN EASTERN EUROPE AND THE SOVIET UNION

Eastern Europe

Today the completely socialized ownership of land in the Soviet Union is matched by state and collective farming of over 90 per cent of the whole agricultural area in Bulgaria, over 80 per cent in Albania, Czechoslovakia, eastern Germany and Rumania, and about 75 per cent in Hungary.⁸² In eastern Germany, Hungary and Rumania this position has been reached only recently, by means of collectivization drives greatly intensified in 1959 or early this year.⁸³ In eastern Germany the share of state and co-operative farms in the total agricultural area grew from 52 per cent to 84 per cent in five months; and in about eighteen months it has been expanded from 25 per cent to 74 per cent in Hungary and from 55 per cent to 83 per cent in Rumania.

In eastern Germany and Hungary, in particular, the rapidity of the collectivization process has added significantly to the already pressing needs for invest-

⁸² Percentages are based on agricultural land except for Hungary and Rumania, for which arable land is the basis.

⁸³ See the *Bulletin*, Vol. 12, No. 1, pp. 8-9.

ment in mechanization, farm buildings, etc.; and in the latter country at least it seems to have brought about some disorganization of supplies of livestock products this year. Difficulties are reported in bringing together fodder and animals in Hungary,⁸⁴ since the larger part of the animal stock is still in private hands (for example 66 per cent of all cattle and 71 per cent of all pigs); and meat production in the first half-year was only 2 per cent above the corresponding 1959 level, falling well below that level during April-June. Official procurement statistics, however, indicate a considerable rise of deliveries (see Table 11), possible explanations being, first, that a higher proportion of total output is now passing through official procurement channels and, secondly, that the data include some purchases of beasts for resale, as breeding or fattening stock, to the new collective farms. Heavy slaughterings of pigs occurred before and during the collectivization drive: state procurements alone were nearly 50 per cent greater during the first quarter of 1960 than in the same months of 1959, but fell 6 per cent below the previous

⁸⁴ *Társadalmi Szemle*, No. 6, 1960, pp. 9-10.

TABLE 11
State procurement of animal products in six eastern European countries

Country and product	Unit	1959 Year	1959	1960	Index 1960 1959 = 100
			First half-year		
Czechoslovakia					
Slaughter cattle	Thousand tons	322.5	146.1	160.8	110
Slaughter calves		29.8	15.8	16.3	103
Slaughter pigs		550.4	147.2	169.4	115
Milk ^a	Million litres	3 657.5	1 750.8	1 783.6	102
Eggs ^a	Million	2 135.3	1 428.8	563.1 ^b	103 ^b
Eastern Germany					
Animals for slaughter ^c	Thousand tons	961.4	459.2	486.8 ^d	106
of which : Pigs		627.4	310.7	323.1 ^d	104
Milk (3.5 per cent fat content)	Million litres	4 631.4	2 306.1	2 421.4 ^d	105
Eggs	Million	1 773.7	1 247.1	1 484.0 ^d	119
Hungary					
Slaughter cattle	Thousand tons	228.5	122.8	136.3	111
Slaughter calves		7.6	4.1	3.1	76
Slaughter pigs		257.1	105.5	124.8	118
Milk	Million litres	714	361	376	104
Eggs	Million	474	387	342	88
Poland					
Slaughter cattle	Thousand tons	404.8	163.3	164.8	101
Slaughter calves		97.0	61.7	60.3	98
Slaughter pigs		920.5	533.2	487.0	91
Milk	Million litres	3 705.9	1 869.3	1 854.2	99
Eggs	Million	2 203.5	1 655.7	1 753.3	106
Bulgaria					
Slaughter cattle	Thousand tons	97.2	43.6	22.6	52
Slaughter sheep and goats		39.4	17.7	22.2	125
Slaughter pigs		118.2	48.2	42.9	89
Milk	Million litres	562.3	289.7	370.2	128
Eggs	Million	476.2	282.4	504.6	179
Soviet Union					
Livestock and poultry	Thousand tons	7 559	6 000	6 400	107
Milk and dairy products (in terms of milk content)		24 957	22 300	22 900 *	103 *

Sources : Statistical yearbooks, pocket books and bulletins; plan fulfilment reports; *Pravda*, 29 October 1959, 10 and 31 October 1960.

NOTE. — Deliveries of animals for slaughter are in live weight throughout.

^a Total production.

^b First quarter.

^c Excluding poultry.

^d Derived from 1959 quantities and 1960 index numbers.

year's level in the subsequent three months, and slaughterings of sows during 1959 were twice as high as in 1958. These developments have contributed to the 20 per cent reduction in breeding stocks of pigs reported between March 1959 and March 1960; and cattle numbers have also fallen (see Table 12).

Special efforts are now being made, however, to encourage higher meat production in Hungary: statutory limits on the numbers of livestock which may be owned by a co-operative farm household have been relaxed for a transitional period; for fattening beasts under contract, with procurement agencies or the collective farm, individual farm members may purchase

fodder from farm, or central, stocks; and farm members and individual peasants may also retain pasture rights for a transitional period.⁸⁵ At the same time major efforts are being made to transfer breeding livestock to the co-operative farms themselves (from state farms and the private sector) and to encourage investment in the new buildings, etc. needed for any major expansion of livestock numbers in these new farms. Transfers of stock in the first half of 1960 were about up to the planned rates: 25,000 cows, 46,000 sows and 68,000 piglets (all breeding stock) to the

⁸⁵ Szabad Föld, 27 March 1960; and Társadalmi Szemle, No. 6, 1960, pp. 9-10.

TABLE 12
Numbers of productive livestock in eastern Europe
Million head at beginning of month

	Cattle ^a	of which: cows	Pigs	of which : sows	Sheep
Bulgaria					
January 1959 . .	1.36	0.53	2.05	0.17	8.62
January 1960 . .	1.28	0.51	2.27	0.24	8.77
Czechoslovakia					
July 1959 . .	4.29	2.08	5.36	0.64	1.05
July 1960 . .	4.38	2.06	5.81	0.67	0.96
Eastern Germany					
June 1959 . .	4.43	2.14	7.21	0.76	2.24
June 1960 . .	4.68	2.17	7.62	0.84	2.15
Hungary					
March 1959 . .	2.00	0.96	6.23	0.52 ^b	2.16
March 1960 . .	1.97	0.95	5.36	0.41 ^b	2.38
Poland					
July 1959 . .	8.35	6.02	11.21	1.51	3.78
July 1960 . .	8.68	5.88	12.61	..	3.67
Rumania					
January 1959 . .	4.39	2.14 ^c	4.01	0.50	10.7
January 1960 . .	4.45	2.16 ^c	4.30	0.52	11.2

Sources : Statistical yearbooks and bulletins; plan fulfilment reports.

^a Including working cattle.

^b In June the number of sows recovered to 0.55 million — only 5 per cent fewer than at the same date in 1959 — of which 25-30 per cent were sows in first pig.

^c Including buffalo cows.

collectively owned herds of co-operative farms, and 36,000 sows and 30,000 piglets to co-operative farm households.

In eastern Germany it is clear that the new co-operative farms set up this year have been, in overwhelming majority, of the simpler type. The area of land under "advanced" (kolkhoz-type) co-operative farms rose by 36 per cent between the end of 1959 and the end of August 1960, but the share of such farms in the total land under co-operative farming fell from 86 per cent to 63 per cent. Labour shortage remains a major problem in the farm sector, complicating the harvesting difficulties which would in any case have resulted from bad weather (see below); and appeals to young workers to volunteer for short-term or permanent work in agriculture have become increasingly fervent, but provide only palliatives for the problem.⁸⁶

⁸⁶ A special appeal to work "on the harvest front" is reported to have brought 500,000 volunteers into the fields for week-end work in mid-August; and youth projects have been set up all over the country for cattle husbandry, maize cultivation, land improvement and rural building. More permanent recruitment of young people to agricultural co-operatives amounted to 40,000 in the first six months of this year, and 17,500 young people were reported to have responded to an appeal to train as cattle-breeders and agricultural mechanics and technicians.

Market production of animal products has nevertheless risen gently this year, together with livestock numbers.

In the third country to have experienced a major extension of collectivization — Rumania — most of the remaining private farms are located in hilly or mountain regions. The rapid spread of collectivization in other areas since the beginning of 1959 has been accompanied by progressive transformation of the looser types of co-operatives into "advanced" collective farms; but in mid-1960 the latter still owned only half the arable land belonging to the co-operative sector, as compared with 40 per cent at the end of 1958. No recent data on output of animal products or on livestock numbers are available, though food processing — and meat output from slaughter-houses in particular — has increased rapidly this year (see section 5 above).

State procurements of meat have been well above the 1959 levels, and above those planned, in Czechoslovakia; but poor fodder supplies during last winter and spring contributed to a slow rise of milk deliveries at less than the planned rate. Procurements have been less satisfactory in Bulgaria and Poland (see Table 11). In Bulgaria, state purchases of milk and wool have both risen sharply in the first half of this year, but purchases of meat have been extraordinarily low. This follows a deliberate reduction in planned procurements of cattle for slaughter, intended to check the decline in cattle herds.^{86a} In Poland, procurements of meat and milk were at, or slightly below, the corresponding 1959 levels in the first half of the year; but a future rise is promised by the increase in livestock numbers (concentrated particularly on young animals) provided that adequate fodder can be assured. The harvest prospects reviewed below suggest that this may not, in fact, prove a serious problem.

Harvest Prospects in Eastern Europe

The effects on spring sowings — and on the chances of fulfilling agricultural production plans — of the bad weather conditions in Albania, Bulgaria, Rumania, Poland and the Soviet Union in the early part of this year were reviewed in an earlier issue of this *Bulletin*.⁸⁷ Thereafter better weather was generally experienced in the late spring and early summer, only to be succeeded by heavy rains during the harvest periods in several countries. Delays in the maturing and harvesting of late crops have meant that estimates of the final out-turn have generally been delayed, as compared with earlier years, but the latest reports suggest average to excellent results in all the eastern European countries.

In Albania, nevertheless, it is already clear that there is no chance of attaining the ambitious target of a 35 per cent rise in gross agricultural output this year. The

^{86a} *Ikonomisheska Misl*, No. 2, 1960, p. 6.

⁸⁷ Vol. 12, No. 1, pp. 9-12.

planned 11 per cent extension of the sown area was not achieved — partly because of bad weather; but, on the other hand, harvesting started early this year. No details of the size of crops have yet been published; but it seems unlikely that very large increases over the 1959 levels will be achieved except perhaps for such rapidly increasing cultivations as cotton, rice and grapes.

Good summer weather, better fertilizer supplies and increasing areas sown to improved seeds have all contributed to the record wheat crop announced in Bulgaria, and crops of tomatoes, strawberries and early potatoes were also good this year. In Rumania, also, increasing stress has been laid on extending the use of selected wheat seeds and on the application of mineral fertilizers, especially in state farms. In mid-August a record wheat crop, exceeding last year's peak of 4 million tons, was expected, including deliveries of 633,000 tons (19 per cent more than in 1959) from state farms.⁸⁸ No reports on the maize harvests in either Bulgaria or Rumania are yet available, but these can be expected to be slightly below the high 1959 levels.

Mid-year prospects for most crops were good in Hungary, partly thanks to improved fertilizer supplies and better selection of seeds; but the latest estimate of the grain harvest is of a crop about half a million tons better than in 1958, but falling below those of 1957 and 1959 by about the same margin.

In eastern Germany also mid-year harvest prospects were stated to be good for grain, oilseeds, vegetables and fruit and excellent for sugar-beet and potatoes. Subsequently, serious harvesting delays were reported, largely due to bad weather and labour shortage, though complaints were also voiced of inadequate utilization of machinery such as tractors and combine-harvesters. Nevertheless, the provisional data on crop yields contained in the plan fulfilment report for the first nine months of the year already indicate that very good results have been obtained for cereals, potatoes and green and silo maize. Estimated yields of these crops are as follows:

	1960 Quintals per ha	Index 1956-1959=100
Cereals	27.5	114.1
Potatoes	189.2	113.9
Green and silo maize . . .	360.3	109.7

The grain harvest in Czechoslovakia also seems to have been larger than in 1959; and by 13 September the annual grain procurement plan had already been fulfilled.^{88a} The sugar-beet crop is very good, about 73-74 million quintals or one-tenth higher than planned; but both yields and area planted of potatoes are less than planned.

Successive changes in prospects in Poland — delays in spring sowings and loss of some winter-sown crops,

excellent weather in the late spring and early summer, heavy rain and floods at harvest time — have terminated in a grain crop estimated to be slightly below that of 1959, a crop of sugar-beet estimated to have reached record levels and a potato crop exceeded only in 1956 (when it amounted to 38 million tons):

	Production in millions of tons	
	1959	1960
Wheat, rye, barley and oats	14.11	13.83
Potatoes	35.70	35.97
Sugar beet	5.97	9.34

However, excessive rain has reduced the quality of both the potato and the beet crops, the sugar content of the latter being some 2 per cent less than in 1959 — a rather good year.

Agricultural Policies in the Soviet Union

A brief statement in the latest plan fulfilment report for the Soviet Union, together with some supporting evidence in the shape of investment data, suggests that a new phase of policy towards farm organization may be starting in that country, encouraging some transformation of collective farms into state farms.

In 1957 a large-scale transformation of this kind raised the total sown area of the state farms by more than 50 per cent and the number of their workers by nearly 40 per cent. During the succeeding two years, however, only a very few collective farms became state farms. Far-reaching reforms designed to strengthen the collective farms were introduced during 1958; and in December 1959 the Minister of Agriculture emphasized that, in his view, new state farms should in future be created by reclamation of new land or by taking over subsidiary farms of state enterprises and, possibly, nearby small collective farms.⁸⁹ Other economically weak collective farms should, he added, be integrated into stronger neighbouring state or collective farms.

The agricultural investments foreseen in the Seven-year Plan and the original plan for 1960 were in accordance with such a policy. The Seven-year Plan fore-saw a stabilization of state investment in agriculture at about the 1958-1959 level, whereas collective farm investment was to rise rapidly;⁹⁰ and the original plan for 1960 also envisaged a stable level of state investment in agriculture.

However, a partial switch from collective to state farming has been advocated in some quarters, as an alternative to the reforms of collective and state farm organization already initiated or contemplated (which themselves tended to bring the organizational structure of state and collective farms closer together). The plan

⁸⁸ *Probleme agricole*, No. 10, 1960, p. 5.

^{88a} *Rudé Právo*, 15 September 1960.

⁸⁹ See the SURVEY for 1959, Chapter II, p. 13.

⁹⁰ *Ibid.*, Chapter III, p. 19, and Chapter IV, p. 4.

fulfilment report for the first half of 1960 has now stated that "the number of workers employed in state farms and subsidiary agricultural enterprises increased by 1.7 million as a consequence of the transformation of a part of the collective farms into state farms, decided upon by the general assemblies of collective farm members".

Data illustrating the developments described above are as follows:

Indicators of transformation of collective into state farms and state investment in agriculture in the Soviet Union

	Average number of workers Millions	State farms		State investment in agriculture Percentage change from previous year
		Sown area at end of year Million ha	Collective farms	
1956	2.9	35.3	152.1	+7.6
1957	4.0	54.0	132.4	+10.4
1958	4.6	56.9	131.4	-3
1959	4.9	58.8	130.3	-13
1960 Plan . . . . .	..	..	..	—
1960 first half	6.6 ^a	..	..	+20 ^b

Sources : *Narodnoe Khozyaistvo SSSR v 1959 godu* ; plan fulfilment report; *Pravda*, 28 October 1959.

^a Number of state farm workers at end of June on the assumption that the corresponding figure for 1959 was about the same as the average for the whole year.

^b Centrally planned state investment in agriculture.

It remains a matter for speculation whether, and to what extent, any further conversion of collective farms into state farms is proceeding during the second half of 1960.

Some part of the 20 per cent rise in the level of state investment in agriculture in the first half of this year, despite a plan for the year which provided for virtually no change from the 1959 level, must reflect this conversion of collective into state farms. Other possible contributing factors are the new plans for investment in grain handling, storage and transport facilities in the virgin lands areas, already noted in an earlier issue of this *Bulletin*,⁹¹ and a desire to compensate for a possible shortfall on planned investment by collective farms which may well have resulted from the under-fulfilment of delivery plans, particularly for animal products (see below). As has been noted earlier,⁹² investment by collective farms is closely dependent on their money income, which in turn depends — at a time of stable prices such as the present — on the level of marketed output.

Production and Harvest Prospects in the Soviet Union

State procurements of meat up to 20 October were 7 per cent, and those of milk an estimated 3 per cent higher than in the same months of 1959, as compared

⁹¹ Vol. 12, No. 1, p. 12.

⁹² *Ibid.*, pp. 12-13.

with planned increases of 14 per cent for meat and 12 per cent for milk between the two whole years.⁹³ Increases in total output were probably somewhat smaller, since it can be expected that the share of procurements in total output continued its upward trend. Two main factors contribute to this rise. The first is a faster rise of deliveries to the state than of sales on the peasant markets: the former accounted for 86 per cent of all marketings of meat, and 89 per cent of milk marketings in 1959, against 67 per cent and 77 per cent, respectively, in 1953. The second is the rising share of marketings in total output, which has increased from 55 per cent for meat and 38 per cent for milk in 1953 to 64 per cent for meat and 45 per cent for milk in 1959. Moreover, both these tendencies are likely to have been intensified by the transfer of livestock from private to state and collective ownership.

On the input side, shortages of fodder, beginning during the severe winter and the cold spring, were reported to be among the main factors explaining unsatisfactory developments in animal breeding, especially in the Ukraine, Moldavia, Kirgizia and some *oblasts* and *krais* of the RSFSR, where meat and milk procurements during the first nine months of this year were below their 1959 levels.⁹⁴

Official harvest estimates for 1960 are not yet available. The area under crops has been expanded — through ploughing up of new land and increased cultivation of fallow — by 6.6 million hectares or 3.4 per cent,⁹⁵ and now exceeds 200 million hectares for the first time in Soviet history. The expectations of high yields expressed in the early summer⁹⁶ materialized, as far as can be judged from published data, in the Volga region and the Urals. In the Ukraine and the Northern Caucasus, grains other than maize suffered from the loss of winter sowings, and a drought in the central regions of the RSFSR depressed grain yields in that area. In Kazakhstan and Siberia, crops had done well until the beginning of September, but the late sowing and unusually wet summer considerably delayed their ripening, so that the rains, snow, or frosts which nor-

⁹³ As in the two preceding years, a Plenum of the Central Committee of the Communist Party of the Soviet Union has been convened for December 1960 to discuss agricultural problems. This year's Plenum is to examine the fulfilment of the state plan and pledges concerning agricultural output and procurements in 1960, as well as measures for the further development of agriculture.

⁹⁴ See *Izvestia*, 11 October 1960; *Sovetskaya Rossiya*, 1 and 16 October 1960; *Selskaya Zhizn*, 7 and 16 October 1960; *Pravda*, 12 September, 7 and 10 October and 2 November 1960.

⁹⁵ This, together with the spring re-sowing of some 8 million hectares of damaged autumn sowings (especially of winter wheat) has led to increased spring sowings of maize (5.7 million hectares), spring wheat (3.3 million hectares), millet, buckwheat and pulses (2.1 million hectares), sunflower seed (0.36 million hectares), sugar beet (0.33 million hectares) and to smaller increases in the area sown to cotton, flax and vegetables.

⁹⁶ See *Economic Bulletin for Europe*, Vol. 12, No. 1, p. 11.

mally start in these areas in the second half of September proved formidable obstacles to harvesting and transport. These bad conditions, together with unsatisfactory utilization of machinery, transport equipment, etc., seem to have caused heavy losses, and to have affected the quality of the grain — especially its moisture content — in a number of important grain-growing areas.⁹⁷ No quantitative indications are available on output from these last-mentioned regions, and all that is known about the maize harvest is that it will be larger than in 1959 and will account for a higher share of total grain output than in any previous year. The final out-turn of the total grain harvest thus remains in doubt. On balance it seems

⁹⁷ See *Pravda*, 21 August, 28 and 30 September 1960; *Izvestia*, 3 October 1960; *Selskaya Zhizn*, 23, 27, 29 and 30 September and 9 October 1960.

likely to lie close to last year's level of 126 million tons.⁹⁸

Considerable increases, as compared with 1959, are reported in sugar-beet yields, so that output is expected to exceed the previous 1958 record of 54 million tons. There seem also to have been good crops of sunflower seed, cotton, fruit and vegetables other than potatoes. Potato crops may, however, have been adversely affected by the delays in harvesting, caused by bad weather conditions in October and by the relatively small degree of mechanization of harvest operations, which have apparently led to considerable losses.⁹⁹

⁹⁸ It was announced at the beginning of November that grain procurements this year "will not be less than last year" (*Pravda*, 7 November 1960), as lower deliveries from the Ukraine and Kazakhstan were offset by increased deliveries from the RSFSR (29.5 million tons or 10 per cent more than last year).

⁹⁹ See *Sovetskaya Rossiya* and *Pravda* of 9 October 1960.

7. INVESTMENT AND CONSUMPTION IN EASTERN EUROPE AND THE SOVIET UNION

In line with the 1960 plans, a high rate of investment is being maintained in all the countries of the area. Outlays during the first half of the year were in most cases considerably higher than in the corresponding months of 1959, although a slackening in the rate of growth of fixed investment is now taking place, as planned, in Albania, Bulgaria, Czechoslovakia and Poland. Some deceleration is also apparent in eastern Germany, although the 1960 plan provided for a faster rate of growth than last year. The only countries registering a significant acceleration of investment activity are Hungary and Rumania. The extraordinarily rapid growth of outlays in the former country contrast with the deceleration originally planned for this year and partly reflect an upward revision of the original plan. In the Soviet Union last year's rate of growth is expected to be roughly equalled in 1960.

Output of machinery and other producers' goods is everywhere rising rapidly; the special efforts undertaken to increase construction capacity and supplies of materials have begun to yield results; and growing trade in machinery and equipment, both among the eastern European countries and between these countries and "western" suppliers, has helped to widen bottlenecks in supplies of capital goods and thus to sustain the high rate of investment. Soviet imports of equipment have also risen very fast this year,¹⁰⁰ but they remain only a small fraction of new equipment installed in that country.

Published data on the growth of personal incomes and consumption in the first nine months of the year

are few; but Table 14 below gives such indications as are available of changes in money incomes and in retail trade turnover. Increases in retail sales this year over the corresponding months of 1959 have ranged from 3 per cent in Poland to 18 per cent in Rumania. The increases in turnover generally exceed the rise in money wages where such data are available — for familiar reasons, such as the increasing share of consumption passing through the state retail network in several countries and the fact that such goods as building materials and farmers' supplies are frequently distributed by this means. There has been a marked levelling-off of the growth of average money incomes in Hungary and Poland reflecting present government policies in those countries (see below).

Supply difficulties have arisen this year for certain foodstuffs and a number of consumers' goods in eastern Germany, Hungary and Poland; and simultaneously stocks of some others (textiles in particular) have continued to rise. Nevertheless, the pattern of consumer-goods output seems to be in process of closer adaptation to consumers' demand in most countries.

Investment in the Soviet Union

In the Soviet Union, centrally planned investment outlays in the first half of this year were 13 per cent higher than in the same months of 1959, but the plan has nevertheless again been under-fulfilled. In 1959 centrally planned investment fell 5 per cent short of the planned level, and in the first half of 1960 there was a short-fall of 7 per cent. Since construction and assembly work was only 2 per cent below the half-yearly plan level, current delays appear to be due mainly to inadequate supplies of new equipment. This

¹⁰⁰ Total exports from western European countries to the Soviet Union, of which the greater part is equipment, rose by 70 per cent from the first half of 1959 to the same months of 1960 (see the *Economic Bulletin*, Vol. 12, No. 2, p. 27, Table 13).

TABLE 13
Centrally planned state investment in the Soviet Union,
by branches

Percentage increases over same period of the previous year

Branches	1958	1959	1959		1960 Plan
			First half	1960	
Industry					
Chemicals	39	59	70	41	30
Metallurgy	21	22	21	18	20
Oil and gas	a	14	18	8	15
Construction of electric power stations	5	4	7	5	..
Engineering . . . . .	..	39	35	29	30
Building-materials and building	25 ^b	15	12	8	..
Timber, paper and wood-working	2	17	11	10	..
Light and food	16	34	23	21	14
Agriculture . . . . .	..	c	..	20	d
Railway transport . . . . .	..	12	11	11	..

Sources : Plan fulfilment reports, 1960 plan figures from *Izvestia*, 28 October 1959.

a 15 per cent for oil industry and 48 per cent for gas industry.

b Building-materials industry only; housing construction increased by 11 per cent.

c Plan provided for a fall below the 1958 level.

d No change from 1959 plan level.

has been confirmed by the Chairman of the State Committee for Automation and Machine-building, who stated that the plan for capital construction in the engineering industry was under-fulfilled by 15 per cent in 1959 and by 12 per cent in the first half of 1960, and that insufficient supplies of machinery and equipment were responsible for last year's under-fulfilment of plans for installation of new capacity in the chemicals, machine-building, cement and some other industries.¹⁰¹ The plan fulfilment report has drawn attention also to the fact that investment resources tend to be dispersed over an excessive number of projects; and the Chairman of the RSFSR Gosplan has referred to inadequate supplies of building materials — due, in turn, to insufficient investment in building materials capacity — as a further factor hampering investment activity.¹⁰²

As can be seen from the data in Table 13, the sector distribution of investment during the first half of the year did not coincide fully with that planned. The rates of growth of investment in the chemicals and light and food industries exceeded substantially those foreseen in the annual plan; but a considerable lag seems to have developed in the fulfilment of the investment tasks set for the oil and gas industries.¹⁰³

¹⁰¹ *Pravda*, 15 July 1960.

¹⁰² *Pravda*, 14 July 1960.

¹⁰³ In some instances, however, divergences reflect only recent revisions of the annual plan. For example, supplementary investments in the sugar, meat and textiles branches were announced by Mr. Khrushchev in May (*Pravda*, 6 May 1960).

A recently completed valuation of fixed assets in the Soviet Union yielded an estimate for the total capital stock at 1 January 1960 of 2,965 billion roubles at 1955 replacement prices, of which 59 per cent represents "productive" assets and 32 per cent the housing stock. According to a recent statement,¹⁰⁴ the total value of the fixed assets of state and co-operative organizations — 2,400 billion roubles at 1 January 1960 — is to be doubled over the period 1960-1965. However, the rate of growth of national income (some 1,300-1,400 billion roubles in 1959) is expected to be much slower during the Seven-year Plan period than this rise in the capital stock, and the national income in 1965 is foreseen to be 62-65 per cent greater than in 1958. Thus, the capital : output ratio, which is still relatively low, is clearly expected to increase rapidly over the coming years. This confirms the conclusions reached in the 1959 SURVEY.¹⁰⁵

Investment in Eastern Europe

Investment in Albania was intended to level off in the current year after last year's spectacular growth. The planned cut in the share of national resources going to investment was considerable, and state gross fixed investment was planned to be only 2 per cent higher this year than in 1959 (when it was 14 per cent higher than in 1958). The 1960 plan foresaw a concentration on completion of industrial investment projects included in the Second Five-year Plan which terminates this year; and, if the 1960 objectives are attained, total investment during the five years 1956-1960 will amount to nearly 50 per cent more than had been envisaged in the original Plan Directives and will slightly exceed the goals set in the revised Directives of February 1958.¹⁰⁶ Within the total investment planned for 1960, the share of building was to decline and that of equipment to increase. In the event, building work during the first half of the year was held back by heavy rain, resulting in the construction plan being under-fulfilled by 12 per cent; and it seems that output of building materials may be lagging behind the needs even of this year's reduced construction plan. Cement output in the first half of the year was only 3 per cent greater than in the same months of 1959 and production of bricks was 14½ per cent lower.

Bulgaria is another of the countries where the rate of investment growth is to be considerably lower this year than last, a 28 per cent increase in centrally planned gross fixed investment being planned for the current year compared with the 48 per cent increment reported

¹⁰⁴ Mr. A. Kosygin, First Deputy Prime Minister, *Pravda*, 14 July 1960.

¹⁰⁵ Chapter III, pp. 17-19.

¹⁰⁶ The total should reach slightly over 48 billion leks in 1958 prices which, converted to 1955 prices, would be about 33 billion leks as against 22 billion leks originally planned.

in 1959.¹⁰⁷ In the first nine months of 1960 centrally planned investment outlays were 20 per cent below the plan level, although 31.6 per cent higher than in the corresponding period of 1959.¹⁰⁸ The construction plan for the period was 90 per cent fulfilled, with a rise of 38.4 per cent over the level in the same months of last year; and the under-fulfilment was ascribed to shortcomings in the supply to construction sites of manpower and materials and to inefficient utilization of equipment. Thus the major part of the shortfall in overall investment compared with the plan was due to lagging installation of equipment. This must be attributed primarily to delays in imports of machinery (planned to be 23 per cent greater in 1960 than in 1959), since the planned domestic output of machinery was exceeded by 1 per cent.

Gross fixed investment in Czechoslovakia was 13 per cent above the corresponding 1959 level in the first half of this year, which is a slightly faster rate of growth than the 11 per cent foreseen in the plan for 1960. Construction work started well in the first half-year; and this element in total state investment was 15 per cent greater than in the same months of 1959, compared with a 7.8 per cent rise planned for the whole year. Installation of machinery and equipment, however, proceeded less fast, being 12.1 per cent higher than in the first half of 1959 compared with a planned rise of 3.4 per cent over the year as a whole. Investment in dwellings rose rapidly, and 29,500 apartments were handed over to their occupiers during January-June, against 24,500 in the same months of 1959.

The Czechoslovak authorities are nevertheless again concerned at the disparate development of centralized and decentralized investment. Outlays in the latter category were Kčs 1.1 billion above the planned level in the first half of the year, most of the excess being due to "true investment" while outlays on mainten-

¹⁰⁷ These data, and the figures given below, supplement — and to a minor extent revise — those reproduced in the *Bulletin*, Vol. 12, No. 1, p. 14, Table 7. Centrally planned capital investment, excluding that financed by bank and special state credits, is intended to reach 7.6 billion leva in 1960, allocated as follows:

Industry	1959 Percentage of total	1960
of which:		
Electric power and coal	..	17.3
Mining and metallurgy (including geological surveying and prospecting)	..	12.3
Food processing	..	6.5
Agriculture	11.8	15.6
Transport and communications	11.0	10.3
Housing and cultural development	12.9	12.4
Other	5.3	4.7

Source : Statistical pocket-book and plan for 1960.

¹⁰⁸ Total investment outlays for the first three quarters of the year represented 65 per cent of the annual plan as against a 63 per cent fulfilment in the corresponding period of last year. From the 20 per cent under-fulfilment reported for the first nine months of the current year it can be deduced that an 82 per cent fulfilment of the annual investment plan by the end of September had originally been foreseen.

ance and repairs were lower than in 1959; but centralized investment lagged behind the plan.¹⁰⁹

Total investment outlays in eastern Germany were 9 per cent greater in the first nine months of 1960 than in the same period of last year, which implies that the 16 per cent rise planned for the whole year is unlikely to be realized. No information on the distribution of investment by economic sectors has been published, but good progress on a number of important projects has been achieved.¹¹⁰ In the case of a number of others, among which are some of the priority projects of the metallurgical, electric power and chemicals programmes, delays have been reported necessitating special efforts to overtake arrears. The building industry increased its output by 11 per cent over the corresponding 1959 level in the first nine months of 1960, but it still under-fulfilled the plan; and arrears, both of industrial construction and of agricultural building, are considerable. Thus, whereas at the end of June, 19 per cent more new dwellings had been built than in the corresponding period of last year, by the end of September only about 41,000 new dwellings had been handed over to their occupiers, representing less than half the apparent annual target of about 90,000 units.

The failure of the east German construction industry to reach its goals, despite all the measures taken to stimulate production, represents a serious bottleneck in the implementation of the current industrial development programme. Its difficulties are ascribed primarily to management deficiencies, both in local enterprises and at the centre, and to delays in deliveries of building materials, though significant increases in output were registered in the first half of the current year for cement and prefabricated concrete components, but not for bricks (see Table 10 above). Construction has recently started in Bernburg of what is to become the largest cement factory in the country. It is to have an annual capacity of 850,000 tons of Portland cement, and is scheduled for completion by the end of 1962. A new building-materials combine is also nearing completion at Dessau and is to supply, among other products, mass-produced large building blocks. Prestressed concrete building components are to be produced locally as from next year.

Total domestic accumulation (net fixed investment plus additions to stocks and working capital) was planned to rise by 26 per cent from 1959 to 1960 in Hungary, with state financed and co-operative out-

¹⁰⁹ In 1959 also, decentralized investment was considered to have absorbed an excessive share of total investment resources (see the SURVEY for 1959, Chapter II, p. 23).

¹¹⁰ Among these: the Niederwartha accumulator plant, the new opencast brown-coal mine at Schlabendorf, the sulphuric acid plant at Coswig, several important new extensions to chemicals and plastics capacity, and the first construction stage of the port of Rostock.

lays on fixed investment increasing by 10 per cent after a rise of some 30 per cent from 1958 to 1959. A considerable change in the pattern of total investment was foreseen; and in the sphere of fixed investment alone agriculture was intended to receive 55 per cent of the increment at the expense of industry, transport and trade.¹¹¹

In fact, a strikingly faster increase in fixed investment outlays than had been planned was recorded in Hungary in the first half of this year, when they were 46 per cent higher than in the same months of 1959; and the shares of both agriculture and transport rose. The 15 per cent rise in building and construction (compared with the increase of 8.5 per cent planned for the whole year) which contributed to this result was due mainly to an over-plan rise in building manpower, since labour productivity rose as expected (see Table 10 above). Moreover, supplies of machinery and equipment have been forthcoming in substantially greater quantities than had been foreseen in the plan, and the 44 per cent share of machinery in total investment in the first half-year was above the 40 per cent share planned for 1960 as a whole. The revised plan for 1960 now foresees a rise in total state-financed and co-operative gross fixed investment of 21 per cent over the 1959 level.¹¹²

However, Hungary appears to be running into the danger — confronting other countries of the area also — of undue dispersion of investment resources and consequent delays in completion of projects. It was hoped this year to reduce the stock of uncompleted projects — which had risen in 1959 — by 30 per cent. But in the first six months only 16-18 per cent of projects scheduled for completion under the 1960 plan had in fact been fully completed, as compared with 21.5 per cent in the same months of last year.¹¹³ A special effort is now, therefore, to be made to delay starting new projects, so far as possible, so as to concentrate the major part of resources during the remainder of the year on completion of those already well under way.

The Polish investment plan for 1960 was the most modest in the area (except for that of Albania), in terms of the rise expected over the 1959 level. Outlays on fixed investment in the socialist sector in the first six months of 1960 rose in line with the overall plan for the year — by 6 per cent above the corresponding 1959 level. Co-operative investment in dwelling construction rose by 47 per cent; and, in terms of numbers of rooms completed, state and co-operative housing construction was 17 per cent greater than in the first half of 1959 while private building rose by 25 per

cent.¹¹⁴ Thus dwelling construction appears to be running far ahead of the 1 per cent rise over last year's level of activity foreseen in the annual plan.

Few details of other elements in the distribution of investment in Poland are available. The output of the investment-goods industries rose fast in the first half of the year and installation of machinery and equipment seems to have proceeded satisfactorily; and the fact that total output of building and construction was no higher in the first half of 1960 than in the same months of 1959 does not necessarily indicate difficulties in that field. In the first place, there was something like a construction "boom" in 1959; and, secondly, the intention this year was to concentrate resources on completion of industrial projects under way, rather than on new starts, and to bring about some shift of investment activity towards agriculture, where machinery and building materials — rather than the services of building enterprises — would be the resources mainly required.

The relative absence of strain on investment resources in Poland is underlined by the recent announcement of an upward revision of the original 1960 plan for fixed investment. Centralized investment outlays are to be raised by 754.6 million zlotys, decentralized investment in the central plan by 319.9 million and decentralized investment in the local plan by 550.1 million zlotys. This implies an increase of nearly 3 per cent on the total originally foreseen for 1960 and a larger supplement to decentralized than to centralized investment.¹¹⁵

The rate of growth of fixed investment in Rumania was scheduled to rise from 17 per cent between 1958 and 1959 to 34 per cent in the subsequent year. Information on accomplishments during the first three quarters of 1960 is scarce; but the particularly rapid expansion of industrial production in the course of the first six months — which markedly exceeded the rate planned for the whole year — suggests that investment is proceeding satisfactorily. This impression is confirmed by the fact that during the first six months (which has recently accounted for about 40 per cent of the annual totals) state investment has been 28 per cent above the rate in the same months of last year, and by a recently reported statement by the First Secretary of the Rumanian Workers' Party¹¹⁶ that state investment this year is expected to be 33 per cent greater than in 1959.

The Rumanian investment drive in industry, which is planned to absorb 59 per cent of all state investment this year compared with 51 per cent in 1959, apparently involves mainly completions of unfinished projects and extensions of existing plants. Among the 34 new factories or workshops scheduled to be put into opera-

¹¹¹ See the *Bulletin*, Vol. 12, No. 1, pp. 14-15.

¹¹² *Figyelő*, 27 September 1960.

¹¹³ And 24.8 per cent in 1958 and 23.5 per cent in 1957 (*Figyelő*, 19 July 1960 and *Statisztikai havi Közlemények*, No. 10, 1960).

¹¹⁴ A comparison of the first quarters only.

¹¹⁵ *Polish Facts and Figures*, 3 September 1960.

¹¹⁶ *Scînteia*, 1 November 1960.

TABLE 14

Retail sales and money wages in five eastern European countries and the Soviet Union*Billions of national currencies at current prices and index numbers of value or (in italics) volume*

	1959		1960	
	First half	Second half	First half	Third quarter
Bulgaria				
Retail sales (index numbers) ^{a c}	116.5	118.9	111	111.6
Czechoslovakia				
Total wages and other centrally financed money incomes ^b	35.3	38.2	37.8	..
Retail sales (value) ^c	43.9	51.0	47.0	25.9
Retail sales (index numbers) ^{a c}	104.4	106.1	107.0	107.6
Eastern Germany				
Retail sales (index numbers) ^a	112.6	108.1	108.3	105.6
Hungary				
Total wages and other centrally financed money incomes	26.1	29.2	29.4	15.8
Retail sales (value)	28.0	33.7	31.9	17.4
Retail sales (index numbers) ^a	109 *	115 *	113 *	106 *
Poland				
Wage bill in the national economy	67.6	72.3	69.1	24.6 ^d
Retail sales (value) ^c	99.3	111.8	102.3	36.0 ^d
Retail sales (index numbers) ^{a c}	114	107	99	103.2
Rumania				
Retail sales (index numbers) ^{a c}	99	109	117	..
Soviet Union				
Retail sales (index numbers) ^{a e}	109	..	109	..

Sources : Statistical yearbooks and bulletins; *Statistical Indicators of Short-term Economic Changes in ECE Countries*; plan fulfilment reports.

^a Same period of previous year = 100.

^b Wages and salaries of employees (excluding apprentices) excluding payments for long service and fees paid to persons not on the staff of the enterprise. Workers on co-operative farms are also excluded.

^c In state and co-operative sectors only.

^d July-August.

^e In state and co-operative sectors (excluding commission sales).

tion this year, the most important are a fourth coke battery and a fourth Martin oven at the Hunedoara steel combine, a welded-tube plant in Bucharest, a catalytic cracking installation at the Borzesti chemical combine, soda plants in Govora and Borzesti, a reed cellulose plant at Braila, a timber processing combine, two furniture factories, a dairying combine, and two sugar plants. Moreover, extension and/or re-equipment of 82 existing plants is foreseen.¹¹⁷

Indicators of Consumption in the Soviet Union

No data on trends of wages and salaries in the Soviet Union are yet available for this year. However, the volume of retail trade in the first six months rose

rather faster than was foreseen in the plan for the year as a whole (which provided for an 8 per cent increase over 1959), with durable goods registering particularly rapid increases. State housing construction alone added 17 million square metres — or 21 per cent more than in the first half of 1959 — to living space in the towns; and the "social fund" which encompasses state expenditures on social welfare schemes, education and health increased by 5 per cent in the first half of 1960.

A recent decree has criticized not only bad service in retail enterprises, but also the inadequate studies now undertaken of demand patterns, which are partly responsible for shortcomings in the planning and production of consumers' goods.¹¹⁸ Among the provisions of the new decree is one laying down the rule that 5 per cent of future housing investments must be allocated to shop construction, and that premia in building organizations are not to be paid until the

¹¹⁷ Ferrous metals, chemicals, electric power, engineering and food processing are the branches in which output is planned to expand most rapidly in the current year, but to a large extent as the result of a more efficient organization of existing capacities. In ferrous metallurgy, for instance, only 30 per cent of the rise in pig-iron output is to be accounted for by new investment, and in the case of crude steel only 50 per cent.

¹¹⁸ *Pravda*, 9 August 1960.

planned shops have been put into use on the ground floors. Another clause states that production plans for consumers' goods must in future be drawn up only on the basis of firm and specific orders by retail agencies.

It has recently been announced that a reform of wholesale and retail prices is to be implemented in connexion with the forthcoming introduction of a new currency, which is to take effect on 1 January 1961.¹¹⁹ Although one object of the price reform is to simplify price lists, its main aims will be to establish a co-ordinated price system incorporating correct relations between prices,¹²⁰ and to bring prices of production by local and co-operative industry down to the level of state prices. The possibility that a reduction in the present official foreign exchange value of the rouble might accompany the introduction of the new domestic currency — at a rate of one new rouble to 10 existing roubles — was mentioned in an earlier issue of this *Bulletin*.^{120a} It has now been announced that such a change is intended. Today four roubles equal, at the official rate of exchange, one dollar: on 1 January 1961 the dollar will be valued at 90 new kopeks or 9 old roubles.

The progressive abolition of direct taxation decreed by the Supreme Soviet last May, the first phase of which is to be implemented in October of this year, will start to affect disposable income before long. Moreover, a reduction in the retail prices for medicines averaging 14 per cent, which became effective on 1 April 1960, will mean a saving of 1 billion roubles annually for the general public.¹²¹ Total savings of consumers' expenditure resulting from price reductions in 1959 and the first half of 1960 are estimated to amount to 11 billion roubles a year, or 1½ per cent of annual retail trade turnover.

Personal Incomes and Retail Sales in Eastern Europe

Retail price reductions implemented in April are estimated as the equivalent of an 0.9 billion leks addition to annual purchasing power in Albania, where the volume of retail turnover in the first half of the year was 4.8 per cent higher than in the corresponding months of 1959.¹²²

In Bulgaria, the policy of discriminating increases in wage rates has resulted in a rise in the industrial average by 5.8 per cent between the first nine months

¹¹⁹ Sovetskaya Torgovlya, No. 7, 1960.

¹²⁰ The meaning attached to the phrase "correct relations between prices" is not yet clear.

^{120a} Vol. 12, No. 1, p. 19.

¹²¹ Pravda, 1 April 1960.

¹²² The plan fulfilment report for the first half of 1960 records the following percentage increases over the first half of 1959 in retail sales through socialist channels of selected foodstuffs and consumers' goods: bread, 5.3; meat, 7.0; fish, 19.0; fats, 16.6; sugar, 12.6; macaroni, 30.0; rice, 6.7; shoes and sandals, 17.5; sawn wood, 12.0; cement, 20.8; nails, 12.9.

of 1959 and the same months of this year, with increases of 9.4 per cent in construction, 14.3 per cent in transport and 5.5 per cent in trade. The total volume of retail sales was 11.6 per cent higher in the first nine months of 1960 than in the same months of 1959; but this represents a 2.6 per cent under-fulfilment of the plan for the period, ascribed to shortcomings in the organization of the retail trade system.¹²³ As can be seen from the following figures, meat sales have been far below the planned rates so far this year, while those of most other foodstuffs have risen steeply:

Retail trade in foodstuffs in Bulgaria

Percentage increases over same period of previous year

	January-September 1960	1960 Plan
Rice	1.2	7.8
Meat and meat products	3.3	17.1
Sugar	3.2	12.5
Sugar products	18.0	6.7
Milk	33.2	..
Cheese	18.1	5.6
Butter	15.1	..
Eggs	34.7	36.0
Vegetables	25.0	..
Fruit	18.4	..
Tinned vegetables	32.2	31.8
Tinned fruit	30.7	..

Source : Plan and plan fulfilment report.

Sales of consumers' durable goods also show an erratic record with an almost three-fold increase for washing machines and substantial declines for radio sets (by 11 per cent) and for motor-cycles, bicycles and scooters (by 30 per cent).

The 6.4 per cent rise in the total wage bill in the socialist sector in Czechoslovakia between the first half of 1959 and the same months of this year reflected a 3.4 per cent increase in per capita monthly earnings and a 2.9 per cent rise in employment. Social security outlays also rose from Kčs 5.5 billion to Kčs 5.9 billion. Additional increases in real purchasing power have resulted from last year's cuts in the retail prices of staple foodstuffs and children's requisites, and the further price cuts for industrial consumers' goods and foodstuffs, effected in April of this year. These latter changes, as already reported,¹²⁴ were intended to result in an annual saving of Kčs 1.8 billion (or 2 per cent of annual retail turnover) and affected mainly clothing, "cultural" goods, some household appliances, sugar, canned fish and food products, rice, coffee, tea and confectionery.

¹²³ At a special conference of the Central Committee of the Bulgarian Communist Party and the Council of Ministers, devoted mainly to trade and procurement and held in Sofia in July 1960, a number of measures aimed at improving retail trade were announced, which also reinforce the powers of the Minister for Home Trade over consumer-goods production.

¹²⁴ See the *Bulletin*, Vol. 12, No. 1, p. 16.

Retail sales in Czechoslovakia in the first eight months of 1960 rose by considerably more than the 4.9 per cent foreseen for the year as a whole (see Table 14), and total turnover in the state and co-operative sector up to the end of August already exceeded, by Kčs 1.9 billion, the planned value for the whole year.

Within the total, sales of industrial goods in the first half-year were 10 per cent, and of foodstuffs 4.6 per cent, above the corresponding 1959 level. Campaigns for over-plan output of consumers' goods in the second half of the year are now being launched, designed to raise production of textiles, clothing and footwear in these months by more than 5 per cent above the levels originally foreseen and output of a number of durable goods still more — by percentages ranging from 7 to 22.

No information is yet available on the money earnings of the eastern German population in the first half of the year; but it has been reported that in the first quarter they were 7.1 per cent higher than in the corresponding months of 1959. Moreover, the following data showing the evolution of the structure of money incomes of workers and employees in the first quarters of the last four years have become available, illustrating the significant rise in the share of non-wage income in the total:

Structure of money earnings of workers and employees in eastern Germany in the first quarter of each year

	1957	1958	1959	1960
Total money incomes	100	100	100	100
of which :				
Gross wages and salaries . . .	92.2	90.7	86.4	86.2
Income from sources other than the wage fund . . .	7.8	9.3	13.6	13.8

Source : *Deutsche Finanzwirtschaft*, No. 13, 1960, p. G. 251.

The 7.5 per cent rise in the value of retail trade turnover in eastern Germany in the first nine months of 1960, as compared with the corresponding period of last year, included an increase of 5 per cent for foodstuffs, beverages and tobacco, and of 11 per cent for industrial goods. Within the latter category the turnover of textiles and clothing increased by 8 per cent, of footwear by 11 per cent and of a selection of consumers' durable goods by 13 per cent. While stressing the progress achieved, the plan fulfilment report notes that supplies of the "thousand little things" cannot yet be regarded as satisfactory.

Moreover, despite the increased output and sales of foodstuffs and consumers' goods in general during the period under review, eastern Germany has been going through a crisis in supplies of a number of these products in recent months. Inadequate supplies of vegetables and fruits in certain areas seem to have been largely due to last year's drought; but in a number of

other cases local shortages seem to have been due to shortcomings in the working of the state distribution apparatus. To some extent these have been linked with the recently introduced reorganization of the wholesale trade sector. The new wholesale corporations have apparently failed to implement planning decisions consistently; and in many cases the necessary chains of direct agreements and contracts between producers, the trading corporations and the consumer co-operatives have not been concluded.

So far as food supplies are concerned, the favourable harvest prospects promise relief in the near future; and a further development tending to ease living conditions for east German consumers has been the considerable rise in the number of repair and service establishments this year. In socialist industry alone, about 700 such establishments were set up during the first six months, and state and co-operative retail enterprises have trebled the number of reception points for repairs and services in the course of the first nine months of the year.

The rise in retail sales in Rumania shown in Table 14 exceeds the 17 per cent increase planned for the whole year. It can thus be assumed that, as planned, retail sales will absorb the bulk of the increases in personal incomes resulting from the higher wages and pensions introduced in the second half of 1959, as well as from the salary increases granted to engineers, technicians and others as from 1 August this year.¹²⁵ Retail prices of some 1,100 articles were reduced in July, the range of new price reductions varying considerably between types of products and, for the same product, between different qualities;¹²⁶ and, beginning with the new school year, all 2.1 million pupils of the seven-year general schools will receive their school books free of

¹²⁵ *Scînteia*, 22 July 1960. The salaries of engineers, foremen, technicians, and economic and scientific research staff are increased on an average by 20 per cent. Moreover, as from 1 October 1960 the premia fund for technical-administrative staff in economic enterprises and for scientific research staff will be increased, on an average, by 50 per cent. The increase in total earnings resulting from these two measures will reach nearly 1 billion lei over a full year. (For last year's increases in personal incomes see *Economic Bulletin for Europe*, Vol. 11, No. 3, pp. 48-49.)

¹²⁶ Reductions in retail prices of selected articles in Rumania, effective from 25 July 1960

	Percentages
Pork (1st quality)	6.7
Rice (1st quality)	11
Some bakery products	13-29
Chocolate	13-17
Tea a	9
Coffee beans a	25
Sardines	20
Herrings	15
Oranges	19
Rubber soled leather footwear	7-32
Curtains	10-70
Silk scarves, ties, etc.	6-27
Imported nylon stockings	25-50
Penicillin	40-46
Vitamins	17-55
 Retail price of petrol, lei per litre	
Former price 3.50 New price 1.45	

Source : *Scînteia*, 24 July 1960.

a Products the prices of which were reduced in 1959 also.

charge. The increase in consumers' purchasing power resulting from these two measures has been valued at 1 billion lei on a yearly basis (roughly equivalent to the increase which resulted from the retail price adjustments introduced in August 1959).

Hungary and Poland are the two countries of the region where policy has recently been particularly directed towards a stabilization of personal money incomes, which in the former country has been most successful as regards industrial workers.¹²⁷

In Hungary, as can be seen from the following figures, both centrally financed incomes and retail sales nevertheless expanded at a rate considerably higher during the first half of the year than that foreseen in the yearly plan:

**Centrally financed incomes and retail sales in Hungary,
1959-1960**

Percentage increases over corresponding period of previous year

	1959 Year	1959 First half	1960 First half	1960 Plan ^a
Wages and other centrally financed personal incomes	12.6	9.1	12.4	8.5
Payments for procurements and advances to farmers	-3.2	5.8	-6.2	2.0
Total centrally financed incomes	9.5	8.6	9.3	6.4
Retail sales	11.2	8.1	13.9	4.4
of which :				
Food	8.3	4.6	12.2	3.0
Clothing	12.7	8.1	15.8	3.0
Other	15.2	14.8	15.3	8.0

Sources : *Statistikai havil Közlemények*, No. 5, 1958, p. 1; No. 8, 1959, pp. 7, 56; No. 2, 1960, pp. 7, 56; No. 8, 1960, pp. 7, 59; *Statistical Indicators of Short-term Economic Changes in ECE Countries*, No. 7, 1960; *Népszabadság*, 23 January, 1960; and *Országgyűlési Értesítő*, Session of 28 January 1960, pp. 422, 423.

^a Estimates computed on the basis of official sources.

However, average industrial wages have risen only slowly. In the first half of the year the 12.4 per cent rise, over the corresponding 1959 level, in the total of wages and other non-farm incomes was accounted for by *inter alia* a 7 per cent rise in the number of wage- and salary-earners and higher social security incomes resulting from increases in benefits last year. Per capita industrial wages, however, have risen by only 1-2 per cent as follows (in forints per day):

1959 First quarter .	58.72	1960 First quarter .	59.76
Second quarter .	58.38	Second quarter .	59.23
July-August .	57.66	July-August .	58.64

Participation in profits by the personnel of state enterprises (paid in the first half of the year) added 4 per cent to average wages in 1959 and rather more — probably 5 per cent on an annual basis — this year. The contrast between the rapid expansion of the economy and the slow growth of industrial wage incomes is striking; and recent wage-norm revisions have been

aimed essentially at effecting a redistribution of the wage fund among different groups of wage-earners without, however, raising the average industrial wage level. This has increased by only about 4 per cent since 1957, though profit participation has added about another 5 per cent.

The lower level of payments for procurements from, and advances to, farmers in Hungary in the first half of this year, shown above, probably reflects a decline in the quantity of deliveries and variations in payment and delivery periods this year and last. Procurement prices, which had fallen by 6 per cent in 1958 and 8 per cent in 1959, seem to have remained unchanged this year while free market prices have risen sharply, to a mid-year level about 25 per cent above that of mid-1959.

The rapid rise in retail sales in Hungary this year was partly due to a sudden increase in purchases by the new co-operative farmers, reflecting both some switch from self-consumption of food to purchases and also the addition to their cash holdings of compensation for livestock contributed to the collectives. High demand and running down of wholesale stocks have caused some transitory disturbances in supply flows. In the food sector, meat and lard supplies would appear to have been not entirely adequate to meet rising demand; fruits were scarce and expensive, and sales of vegetable fats, butter and cheese rose little. Supplies of clothing or footwear have been ample, but there have been complaints of poor quality. Shortages of some durable goods developed in the course of the second quarter, particularly of small items of kitchen equipment and of washing machines.

As a result of deflationary measures introduced in Poland in the second half of last year, the total wage bill during the first six months of 1960 has been held below the level then reached, and only 2 per cent above that of the first half of 1959 (see Table 14). Per capita money wages and allowances outside agriculture were only about 1 per cent higher in the first half of 1960 than in the corresponding period of 1959; and, after making allowance for an increase in the cost of living between the two periods of 4-5 per cent, it seems that the real income of the urban population during the first half of 1960 has remained somewhat below that in the first half of 1959.

Demand for consumers' goods other than food in Poland has thus been generally weak. In the first half of the year retail trade turnover was slightly below its corresponding 1959 volume; and efforts to stimulate demand for manufactured consumers' goods without raising earnings had only limited success. The decrease in prices of some manufactured goods reported earlier,¹²⁸ and the facilities offered for instalment-

¹²⁷ See the *Bulletin*, Vol. 12, No. 1, pp. 17-18.

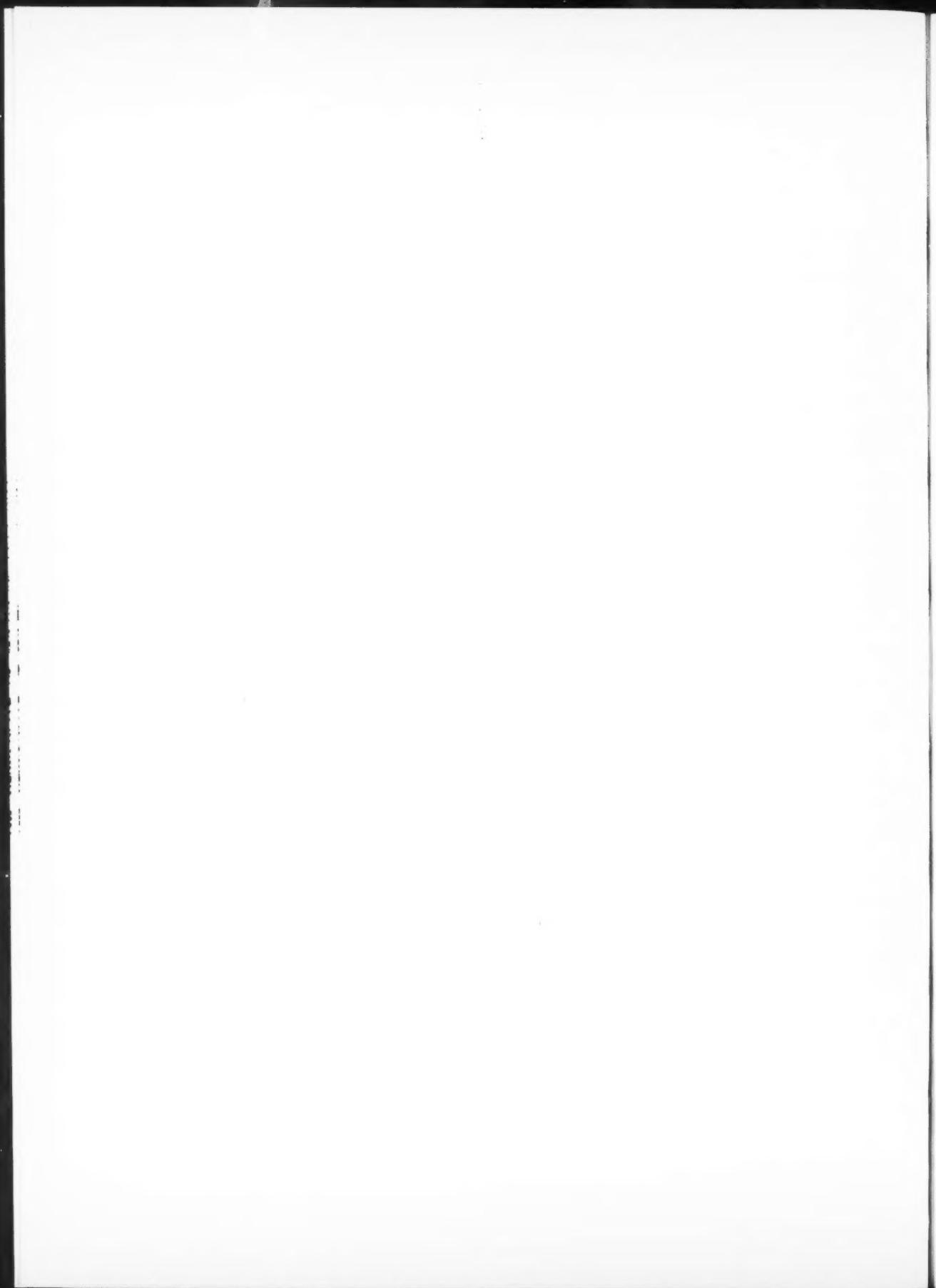
¹²⁸ *Economic Bulletin for Europe*, Vol. 12, No. 1, p. 18.

buying, proved to be insufficient to cope with the growing disparity between supply and demand patterns for consumers' manufactures, and the value of total stocks in wholesale and retail trade increased during the first half of this year by another 3.5 billion zlotys.¹²⁹

In the second half of 1960 real personal incomes are expected to rise, as a result of increased sales of agricultural products. Moreover, the decision taken on 1 August 1960 to abolish or reduce income tax for various groups of employees will have some effect. It is officially estimated that the total increase in

annual disposable income, due to the abolition or reduction of income tax, will amount to about 1 billion zlotys, or rather less than 1 per cent of the total annual wage bill in the socialized economy. Rising supplies of meat and an improving pattern of output of consumers' manufactures should help to absorb this increase of incomes without strain; and the question arises whether the present situation is not one in which the opportunity might be taken to effect a further selective rise in incomes — for example by widening skill differentials or increasing the incomes of technicians, managerial staffs, etc. A modest rise in incomes in Poland — at the level at which demand for food is relatively inelastic with respect to income and that for high quality textiles, durable goods etc. rather elastic — could probably be met by the consumer-goods capacity now under-utilized or producing for stock.

¹²⁹ Given the high elasticity of demand for better-quality food prevailing in Poland with the present structure of personal incomes, a decrease in prices of consumers' manufactured goods subject to lower elasticity of demand produces relatively small increases in demand for consumers' durable goods and tends to increase demand for food.



Corrigenda to the "Economic Bulletin for Europe", Vol. 12, No. 2

Page 27, Table 13. Figures for Iceland and for the total for 1960 should read as follows:

	<i>Imports from</i>		<i>Exports to</i>	
	<i>Soviet Union</i>	<i>Other eastern Europe</i>	<i>Soviet Union</i>	<i>Other eastern Europe</i>
Iceland	5.1	4.5	6.6	4.0
Total of countries listed (value index).	113	128	166	123

Page 27, Table 13, 2nd column, 1st line of heading should read "Exports to" instead of "Exports from".

Page 29, 2nd column, last line of 2nd paragraph. Add "to" before the words "a barter system".

Page 30, Table 14, footnote d. Replace "war reparation to the Soviet Union" by "unrequited deliveries to the Soviet Union under the State Treaty".

Page 31, 2nd column, first paragraph. Delete first sentence, and replace by the following: "Norwegian exports to eastern European markets were practically unchanged from 1958 to 1959 while imports from these countries rose by 9 per cent."

Page 31, 2nd column, fifth paragraph. Delete second sentence and replace by the following: "Austria, in addition to commercial exports, has in recent years made unrequited deliveries of semi-manufactured goods and engineering goods to the Soviet Union under the terms of the State Treaty."

Page 57, 1st column, second paragraph, last sentence. Delete "Austria" and add the following concluding sentence to the paragraph: "In Austria such revisions are being prepared."

Page 62, Table A, Total eastern Europe, 1958 year, Finland. Figure for imports should read "13.6" and not "13.3".

Page 62, Appendix Table A. Figures for the first quarter 1960 for Iceland should read as follows (in millions of current dollars):

	<i>Imports from</i>	<i>Exports to</i>
Czechoslovakia	1.3	0.8
Eastern Germany	1.0	1.2
Hungary	—	0.1
Poland	0.7	0.7
Rumania	—	0.1
Total eastern Europe	3.0	2.9
Soviet Union	3.1	3.3
Total eastern Europe and the Soviet Union	6.1	6.2

All totals, including figures for Iceland in Table A, should be corrected in accordance with the above.

Final page (following p. 89), "Notes to the Statistics". Left-hand column, Unit value index numbers, 5th line, replace "eastern" by "western".



